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# **China**

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# China

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## SOVIET UNION

### Existence of Socialist Alienation Acknowledged

40050413 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 14, 16 Jul 88 p 10

[Article by Jia Lianyi 6328 6647 5030: "Elimination of Alienation as Part of Political Reform in Soviet Union"]

[Text] Does the problem of socialist alienation really exist in the Soviet Union? This subject was taboo in the Soviet political and theoretical circles for years. After Gorbachev repeatedly affirmed the existence of socialist alienation in the past half year, however, the taboo has been broken.

### Meaning Of Socialist "Alienation"

The Russian word for "alienation" is polysemous. It can be translated variously as separation, estrangement, detachment, and deprivation. According to the expositions of Soviet leaders and other theorists, "socialist alienation" means that under the system of administrative fiat, workers who were masters of society to begin with developed a hired hand mentality. Citizens cannot take part in managing social affairs. Lacking culture and education, most people do not feel that they are in control of production and of the state. The tangible manifestations of socialist alienation are as follows: 1) labor alienation. Workers in all trades do not feel they are in control. They lack interest in their work and products. Product quality declines. People seek non-labor incomes through socialist ownership; 2) political alienation, a direct sign of which is bureaucratism. At its extreme, political alienation takes the form of personality cult and a total contempt for human life and dignity; and 3) ideological alienation. People are preoccupied with pleasure-seeking, are politically apathetic, and indifferent to social affairs.

### Gorbachev Acknowledges the Existence of Alienation

In a departure from the traditional official Soviet position that alienation does not exist in a socialist society, Gorbachev has acknowledged publicly several times that there is alienation in Soviet Union. He writes in Chapter 1 of "Reform and New Thinking," "Public ownership seems to have detached from its genuine owner—the working people—and become something 'natural,' unpaid, and without its true master." "More and more, people have become alienated from property owned by the whole people. There is no connection between social interests and the personal interests of individual workers." In Chapter 2, he writes, "Following the appearance of the management system by administrative decree, the soviet seemed to have been pushed aside... Henceforth the advance of socialist democracy has stagnated." "Working people have been alienated from the constitutional right of direct participation in state affairs." He told a plenum of the Central Committee of the CPSU last February, "In the final analysis, the

mission of socialism is to put an end to man's alienation from society, which is unique to an exploitative society, to put an end to man's alienation from power, from means of production, from the fruit of his own labor, and from spiritual wealth." The outline submitted by the CPSU Central Committee to the 19th national party conference last May stated explicitly that the purpose of political structural reform in the Soviet Union is to bring an end to the worker's alienation from power. "Through reform, the political system of Soviet society should eliminate all phenomena related to the consequences of personality cult, management by administrative decree, bureaucratism, alienation of the working people from the regime, and the violation of Lenin's standards for party life and national life." That way the Soviet political system would be greatly vitalized.

Elaborating Engels' argument that the state, having arisen from society, alienates itself more and more from it, Lenin wrote in "The State and Revolution," "If the state is the product of the irreconcilability of class antagonism, if it is a power standing above society and alienating itself more and more from it, it is clear that the liberation of the oppressed class is impossible not only without a violent revolution, but also without the destruction of the state power which was created by the ruling class and which is the embodiment of this alienation."

Stalin, Khrushchev, and Brezhnev never openly applied the notion of alienation. Throughout the Stalin era, alienation was strictly taboo, avoided by all theorists. Only in the mid-1950's did the Soviet theoretical community begin to discuss alienation, but only rarely. In the 1960's and 1970's, there were two different opinions regarding the existence of alienation in the Soviet Union. Defining "alienation" in the "Encyclopedia of Philosophy," Ogurtsov wrote, "Manifestations of alienation such as the theory and practice of the personality cult and the remnants of bureaucratism and religion still linger in the Soviet Union." Other scholars thought otherwise. Ayzerman, a philosopher, argued that "there is neither alienation under socialism" nor "the basis for alienation." Under socialism, "alienation of man from man, alienation of man from society, and alienation of man from the state have all disappeared." In this period the notion that alienation did not exist in Soviet society prevailed.

Andropov pointed out in 1983 in an article commemorating the centenary of the death of Karl Marx, "While alienation has disappeared in the Soviet Union, the consequences (of labor alienation) will not automatically vanish from public consciousness instantly." The Soviet and foreign philosophical circles reacted strongly to the article, with publications such as COMMUNIST running a succession of articles on alienation, few of which, however, dealt with the absence or presence of alienation in the Soviet Union at the present stage. Following the 27th Congress of the CPSU in 1986, a new debate went under way in the Soviet Union, the outcome of which

was that those who acknowledged the existence of socialist alienation gained the upper hand. The top Soviet leader and the CPSU Central Committee have not only reevaluated socialist alienation but also incorporated into party documents the conquest of alienation of an important part of political structural reform. This shows that the Soviet Union has elevated the issue of socialist

alienation to an unprecedented high in both theory and practice. It also provides another theoretical basis for overcoming the resistance and negative factors facing Soviet reform and further energizes theoretical ideology in the country.

12581

### Hubei Symposium on Theory of Initial Stage of Socialism

40050396A Beijing GUANGMING RIBAO in Chinese  
4 Jul 88 p 3

[Article by Hua Sike 5478 1835 4430: "Summary of Symposium on Theory and Practice of the Initial Stage of Socialism"]

[Text] A "Symposium on Theory and Practice of the Initial Stage of Socialism" was recently held in Wuhan, jointly sponsored by the China Scientific Socialism Study Association, the Social Sciences Association of Hubei Province, Central China Teacher Training University, the CPC Party School of Hubei Province, and the Hubei Provincial Scientific Socialism Study Association. The following is a summary of the viewpoints expressed:

1. Regarding the Intensified Study of the Theory of the Initial Stage of Socialism. The participants expressed the opinion that in order to intensify the study of the theory of the initial stage of socialism it is necessary, first of all, to free oneself from and break out of the "exegetic style of research" and rather engage in developmental research. If it currently occurs that the theory of the initial stage of socialism is regarded as "departing from the classics and rebellion against orthodoxy," or if the classics are searched for theoretical bases to prove "orthodoxy," these are certainly influences of the exegetic style of research. We must therefore revive the memory of the discussion of the standards of truth, that had been going on for 10 years, and step up our efforts to eliminate all influences of the "exegetic style of research." Second, we must break away from a pattern of thinking that starts out from principles, give increased attention to investigation and study of the realities, and truly transfer the point of departure and our own standpoint in theoretical studies to the realm of real life.

#### 2. Relearning About Capitalism and Socialism

The participants expressed the opinion that a restudy of capitalism and drawing lessons from and adopting advanced elements of developed capitalism, are important topics for the initial stage of socialist construction. We have to realize that most methods employed in the capitalist system have a dual character: On the one hand they reflect the needs of the bourgeoisie, and on the other hand they reflect common needs of production development and social progress. In our pruning process we cannot, therefore, use the formula of merely putting "socialist" wherever "bourgeois" appears, in assessing complex social phenomena. Not understanding this point will make it very difficult to understand the socialist character of the reform.

#### 3. Persisting on the Productive Forces Criterion

The participants were of the opinion that the productive forces criterion is the criterion of practice in testing truth and is applicable in questions of socialist construction. We must always use the productive forces as basic criterion to measure socialist development as well as the current reform and our opening up to the outside world. We must free ourselves from the traditional viewpoint of looking at socialism from a viewpoint that is divorced from productive forces. We must free ourselves from the concept of regarding productive forces as standing in hostile opposition to the development of spiritual civilization.

#### 4. Interest Groups and Social Contradictions in the Initial Stage of Socialism

The participants were of the opinion that the reform of the economic system will inevitably give birth to various interest groups holding special interests. Some participants analyzed the basic characteristics of interest groups during the initial stage of socialism: 1) Interest groups are structurally in a state of upheaval, transformation, reorganization, and gradual improvement. 2) Interest groups are undergoing ideologically a process of multifaceted and multilevel change. (3) Mutual relations in the interest groups are in the process of moving from such of conflict and friction to such of reorganization and readjustment. According to these special characteristics, appropriate countermeasures should be taken to cope with the problem of the interest groups. First, the basic political line of the party may serve to bring the different interest groups together to achieve an optimum combination of the interests of all society and society's common knowledge, on the one side, and the special interests and value orientations of the various interest groups, on the other side. Second, actively launch negotiations and dialog of various content and in various forms, so as to bring the various interest groups together and establish mutual understanding. Third, upgrade the mutual relations between the different interest groups so as to prevent mutual opposition and dissatisfaction because of differences of interests and contradictions.

There was general agreement that in the initial stage of socialism the question of the intellectuals should attract ample attention. On the one hand, viewed from the standpoint of social development strategy we see that there is an urgent need in the initial stage of socialism to allow the intellectuals to fully play their role, and they should receive appropriate treatment. On the other hand, there still exists at the present stage the "inverted relation between brain and brawn." We must view this from the angle of the developmental strategy in the initial stage of socialism, adopt special policies, extricate the question of the intellectuals from its predicament and find a proper solution.

All were of the opinion that social contradictions in the initial stage of socialism manifest themselves conspicuously in: 1) contradictions between interest groups;

2) contradictions between industrial groups; 3) contradictions between economic regions; 4) friction between old and new systems; 5) conflicts of viewpoints and between different cultural levels.

Some participants analyzed contradictions in the initial stage of socialism with particular attention to the fields of economics, politics, and the spiritual and cultural life of society, and determined four categories: 1) contradictions of economic interests between the state, the collective, and the individual; 2) contradictions between the socialist democratic consciousness, which is generally high among the people, and the remnants of bureaucracy and feudalism; 3) contradictions between the socialist ideology and other ideologies; 4) various contradictions caused by imbalances in the social mentality.

The symposium furthermore discussed questions of the politics of democracy and the creation of a spiritual civilization.

9808

#### **Wang Ruoshui Account of 'CHING PAO Incident,' Written Defense**

40050383 Hong Kong CHING PAO [THE MIRROR] in Chinese No 7, 10 Jul 88 pp 18-21

[Article by Wang Ruoshui 3769 5387 3055: "Importance Of 'CHING PAO Incident' Exaggerated"]

[Text] Editor's note: The June 1984 issue of CHING PAO published exclusively "My Views on Humanism," [FBIS-CHI-84-156 10 Aug 84 pp W5-W17] Wang Ruoshui's refutation of Hu Qiaomu's [5170 0829 2606] authoritative article. Since it is rare in Chinese Communist history for a rank-and-file party member to openly refute the opinions of the party's "theoretical authority," Wang Ruoshui's article caused an uproar. The "theoretical authority" gave out an order and a chill went down everybody's spine. At the time, Wang Ruoshui had to stand up to all kinds of pressure. At a "compare and examine" meeting in July 1984, he gave a resounding defense of himself entitled "The Origins and Aftermath of the 'CHING PAO Incident' and My Understanding" where he marshalled a large number of facts and made an incisive analysis.

This written defense coupled with a review of the facts surrounding the so-called "CHING PAO Incident" will greatly help us understand the fragile inner world of the "theoretical authority." When someone like Hu Qiaomu can remain in the party throughout to make all kinds of trouble with impunity while loyal individuals such as Wang Ruoshui and Liu Binyan [0491 6333 7159] are attacked and are either advised to quit or expelled from the party, how can the party win the hearts and minds of the masses?

It has been 4 years since Wang Ruoshui wrote to defend himself. We managed to get hold of a copy back then, but refrained from publishing it out of consideration for his situation. Now that Wang Ruoshui has been advised to leave the party and has nothing to worry about, we decided to publish it in the interest of truth and justice.

It is hoped that the Chinese Communist authorities concerned would act at the appropriate time to correct the way it has treated Wang Ruoshui, Liu Binyan, and others.

The editorial committee told me that I was to compare and examine today. Let me say this first of all. When party rectification began last January, I said that my problems must not be handled perfunctorily but should be dealt with seriously one by one. Today my position remains the same. Comrade Hu Qiaomu has criticized me repeatedly. At the second plenum of the CPC Central Committee last year, Comrade Deng Lique [6772 0500 5028] delivered a lengthy speech the thrust of which was to attack me. These criticisms were either written in black or white or something I heard personally. In addition, I have been told that Comrade Yaobang had also criticized me. This aside, I am the target of numerous rumors and slanders in society recently, some of which are rather bizarre. A number of people lodge complaints against me endlessly. There has been gossip too. These rumors, gossips, and letters of complaint are political in nature. Yet the authorities concerned under the CPC Central Committee have never investigated me personally, so I never had a chance to clarify and respond to them. In the wake of the 'CHING PAO Incident,' in particular, the atmosphere has suddenly become very uneasy. What kind of person am I really? What do I really want to do? All this has now come under suspicion and must be examined. Needless to say, I am not going to obfuscate; I will clarify everything. This is not only an organizational demand, but also something I ask of myself. I am not going to dodge any question. Facts will be acknowledged, rumors clarified, and truth upheld. I hope that this round of party rectification will come to a conclusion regarding my problems.

#### **Hu Qiaomu Wants The CHING PAO Incident Investigated**

Because so many things need to be clarified, it will take me more than two or three occasions to go over them. On the instruction of the editorial committee, let me begin today by discussing the CHING PAO incident.

CHING PAO, a Hong Kong publication, ran my article "My Views on Humanism" in its June 1984 issue. Comrade Hu Qiaomu telephoned Comrade Qin Chuan [4440 1557] several times, calling for an investigation. Separately, Comrade Qiaomu stated that he had never asked me to write that article. The question thus arose: Why did I write it? How did it find its way to Hong Kong? On 20 June, the editorial committee held a meeting, where I explained how the incident happened

from beginning to end and was severely criticized. The criticisms were published in "party rectification studies bulletin" put out by RENMIN RIBAO Publishing House (26 June). The "bulletin" concluded by saying, "On behalf of the editorial committee, Comrade Qin Chuan demands that Wang Ruoshui provide a clear and complete account of the 'CHING PAO Incident' from beginning to end, sort out his ideological errors in earnest, and solve problems with the world outlook."

I thought I had already told the whole story to the editorial committee on 20 June. (Yet the "bulletin" covered it with only a few brief sentences.) As far as ideological understanding is concerned, my ideas are indeed different. Now let me set forth once again the course of the incident and my understanding.

#### **How The Article Found Its Way To Hong Kong**

Let me begin by making five pledges to the party: 1) I am not related to CHING PAO in any way. Nor do I know its chief editor, other editors, or reporters. 2) I did not give the article to CHING PAO. 3) I did not ask or encourage anybody to take the article to CHING PAO. Nor did I give any such hint to anybody. 4) I do not know who gave the article to CHING PAO. 5) CHING PAO did not ask for my approval before publishing the article. I knew nothing about it.

Also, I would not be so stupid as to cause myself such trouble. My article could have been published elsewhere. It had been reviewed by both Comrades Hu Qiaomu and Deng Lique, who agreed to its publication in ZHIXUE YANJIU. There had been some difficulties, but before the article appeared in CHING PAO, Comrade Qiaomu never said he had changed his mind and refused to publish it. As a matter of fact, Comrade Chen Junquan [7115 4596 3123], who is in charge of ZHIXUE YANJIU, told me in May that they had received notice to run my article in June. Subsequently I told them that I wanted to continue revising the article and asked them to hold off. Nevertheless, I never said I wanted to withdraw the article, which shows that I was still hoping to publish it on the mainland, the possibility for which clearly existed. Even had I been interested in circulating the article in Hong Kong, I did not need to submit it unsolicited to a magazine; once it was published on the mainland, people in Hong Kong could get to read it too.

At the beginning, both the editorial department of ZHIXUE YANJIU and I were tight-lipped about this article, but the news spread quickly. I heard later that it was Comrade Xing Bisi [6717 6321 1835] who let the word out at a symposium on Hu Qiaomu's writings. He also said that the article would be published in ZHIXUE YANJIU. The symposium was a national gathering held in Guangdong. As a result, not only did the entire nation know about it instantly, but it found its way to Hong Kong as well where it soon appeared in a monthly magazine. Apparently it was my manuscript soliciting comments that led CHING PAO to publish the entire

text. What happened was that at the meeting of the editorial committee on 21 April, the comrades tried to dissuade me. In the end I agreed to release the draft to solicit comments for revision. So I had a trial manuscript printed and distributed. The editorial committee criticized me for taking the manuscript to the compositor in person without going through the proper procedures, forgetting that I had already been relieved of my responsibilities. This criticism was justified. I sent out over 60 copies (mostly to newspaper offices), perhaps one too many. Maybe this was why it got to Hong Kong. This was indeed an indiscretion on my part. However, I cannot agree with the characterization of the CHING PAO affair as a "serious political incident." For one thing, the article contains no reactionary political substance. Second, it does not give away any party or state secrets. Moreover, CHING PAO is no reactionary publication; reportedly its chief editor (note: director) even sits on the Chinese People's Political Consultative Conference. The article does discuss some theoretical points raised in Comrade Hu Qiaomu's work, but that is allowed under party policies and is openly welcomed by Comrade Qiaomu. The "bulletin" claims, "Some reactionary publications in Hong Kong and certain foreign reporters would make an issue of it. The international repercussions would be very bad." Actually, from what I have learned so far, neither the world press nor the Taiwan press took much notice of it. Hong Kong newspapers too mostly ignored it. This shows that the importance of the article was overestimated. Comrade Qiaomu once noted that it was proper for him to criticize us in his works. Well, then, my defense is also proper. However, judging from some of the things being said and done now, the incident is regarded as extremely improper. This is something I cannot understand.

#### **Hu Qiaomu Flatly Denies That He Made Me Write Article**

By solemnly denying that he "made Wang Ruoshui write the article," Comrade Hu Qiaomu seems to have called into question the very legitimacy of my article. Let me now explain how it happened from beginning to end.

On 3 January this year, Comrade Hu Qiaomu presented a report at the Central Party School entitled "On Humanism And Alienation." I was in the audience. Later, on 12 January, his secretary Li Hong [7812 5725], acting on his instruction, sent me a copy of the speech along with a letter in which Comrade Qiaomu wrote, "Please comment. You can do so in person or in writing." I thought at the time that since the article criticized me, it would be awkward for me to comment on it. About a week later, Comrade Zheng Hui [6774 1920] (who took part in drafting Qiaomu's presentation) telephoned me and again solicited my opinions. I said, "I am still studying and have not fully digested it." He said once again that Comrade Qiaomu was very eager to hear my views. I made two comments briefly on the phone. One, his article affirmed "socialist humanism," which was good. I was all for it. Two, it rejected the notion of



"Marxist humanism." I asked Qiaomu to reconsider that point because it not only affected people like me inside China, but was in effect an attack on the communist parties in many countries. It did not matter if other people said so, but given Comrade Qiaomu's status, it was better for him to avoid this issue.

Two days later, Comrade Zheng Hui called me to say that my comments had been passed on to Comrade Qiaomu and that the latter thought they were good and would consider them. He also told me that my article would be published soon. I was surprised and said, "Personally, I do not want to rush it into print. The time is still not ripe for me to draw a conclusion. Besides, some parts of the article probably can't stand close logical scrutiny."

Zheng Hui called me again, probably the next day, and said he and Xing Bisi would drop by to hear my views in person. I said, "I am tied up with party rectification in the next few days. I am still trying to sort out my thought. Instead of having you come, it would be better for me to write down my views and send them to you." Since they wanted them right away, I jotted down five pages of comments and had them delivered to them that very evening. Apart from commenting on the substance of Comrade Qiaomu's article, I also made these points:

"Comrade Qiaomu says modestly that he is a 'mere participant in the discussion.' I sincerely welcome comrades who do not see eye to eye with me on the basic premises in my speech to participate in the discourse. The more truth is debated, the clearer it becomes. With complex theoretical issues like these, we can draw the right conclusion only through objective, painstaking, and thoroughgoing study and discussion.' These words embody the spirit of the saying, 'All are equal before the truth,' and demonstrate the bearing of a scholar... In my opinion, the discussion has not been thoroughgoing or detailed enough so far and the time has not arrived for a conclusion. No debate can be a true debate when people can only criticize and not reply to charges. If I am allowed to make a public reply, clarify my points of view, explain my current understanding, and then ask everybody to rebut them, not only will this be a great help to me personally, but it would also make the entire debate more thoroughgoing and detailed, which can only help us in truly resolving the issues and arriving at a conclusion. Isn't this even better? Nevertheless, it probably won't do any good for me to say this now."

This letter, written in the evening on 21 January, showed my intention to reply to criticisms in writing but also made it clear that I wanted to avoid debating with Comrade Qiaomu in the first place. Three or 4 days later, Comrade Zheng Hui called me to say that they had gotten my comments and that Comrade Qiaomu said I could go ahead and write the article, although they still had to decide where to publish it. I merely listened at the time and did not start writing.

On 8 February, the Chinese Academy of Social Sciences held a seminar, chaired by Ma Hong [7456 3163], to study Comrade Qiaomu's writings. Xing Bisi mentioned me during the meeting. "Comrade Ruoshui has written to Comrade Qiaomu. Basically he does not agree with Comrade Qiaomu's article. However, Comrade Qiaomu accepted one point relating to Marxist humanism. Of course, what Comrade Qiaomu has in mind is different from what Comrade Ruoshui has in mind. Comrade Qiaomu says that Ruoshui can write an article. It would not be appropriate to publish it in RENMIN RIBAO or HONGQI, but ZHIXUE YANJIU would be fine. I have told comrades at the Institute of Philosophical Research that they could invite Comrade Ruoshui to write an article."

The symposium was an open meeting attended by the press, including a comrade from the theoretical department of the newspaper office. It was from him that I got to know what transpired at the meeting. I waited several days. Nobody came from ZHIXUE YANJIU, so I did not start writing.

#### Deng Xiaoping's Comments: Read Between The Lines

Chen Junquan, who was in charge of ZHIXUE YANJIU, finally wrote me in late February to invite me to submit an article. He told me that Comrade Xiaoping had praised Qiaomu's article, noting, however, that "the artistic, literary, and theoretical communities can organize symposiums in which people can take part freely, that debates should be allowed, and that nobody should come down with the big stick upon another person." It was then that I made up my mind to write.

I was also prompted to write my Document No 3, entitled "Notice Concerning the Study and Discussion of Comrade Qiaomu's Important Article, 'On Humanism and Alienation,'" issued by the Central Propaganda Department on 26 January this year. The notice, which had been examined and approved by the secretariat, "read in part, 'Comrades who have expressed mistaken ideas are encouraged and welcomed to take part in the study and discussion. Among other things, they are welcomed to engage in self-criticism as necessary and understand the issues anew. People should be allowed to discuss and debate academic theoretical issues.' " "We should strive to create and perpetuate a climate in the ideological community that encourages democratic and lively discussion on an equal basis." The document also suggested that relevant academic theoretical articles of an exploratory nature be published primarily in professional academic journals and less frequently in newspapers. Concerning the treatment of contributed articles basically at odds with Comrade Qiaomu's article, the document made three points. First, report them to the Central Propaganda Department. Second, those that are deemed worthy of publication should be published in professional or academic journals. Third, arrange for the publication of criticisms and discursive articles which have a different viewpoint.

What it meant was quite clear, that there should be contention among different schools of thought. Such contention, however, should be restricted to within a small area and kept to a limited scale. I agreed with that. Earlier, the national press scrambled to criticize "alienation." I think few people understood such criticism. Besides, we can only be so profound when there are merely criticisms and no response. The approach suggested in the document was better.

I believed Comrade Qiaomu's remarks welcoming debate were not a ruse to "get the snake out of the hole." I believed Deng Xiaoping's words—"debates should be allowed and nobody should come down with the big stick upon another person"—really did count. I believed Document No 3 of the Central Propaganda Department, which had been approved by the secretariat, would be enforced. I decided to reply to the criticisms in writing only because I believed all that. To be sure, Document No 3 contained some statements similar to things Deng Liqun had said earlier in the spring of last year, which were published in the papers and which turned out to be at variance with what happened later, creating an uneasy atmosphere. Still I thought things would be different this time.

#### Written Defense Treated As A Verdict-Reversing Trend

I began writing this article at the end of February and delivered it to ZHEXUE YANJIU in mid-March. I told people at the magazine, "Send it to Comrades Qiaomu and Deng Liqun for their examination and approval. This is my personal request as well as an organizational formality." They subsequently told me that the article had been examined and approved and was scheduled for publication in April. Comrade Deng Liqun also mentioned it at a meeting. I don't know what his original wording was, but when it reached the newspaper office, it seemed that my writing a defense was tantamount to starting a verdict-reversing trend. As soon as this explosive piece of news broke, the climate turned uneasy. Many comrades objected to what I had done as if it were some heinous crime. Qin Chuan and Li Zhuang [2621 8369] wrote a letter to Comrade Qili [5170 0796 4539] on 14 April to report this incident. The letter read in part, "According to him (meaning me), Comrade Qiaomu made him write the article." Let me explain something here. I said, "Comrade Qiaomu agreed that I should write such an article." I also said, "Zheshi Qiaomu Tongzhi Rangwo Xiede." "Rang" can mean either "allow" or "make." Maybe this was why the report said, "Comrade Qiaomu made him write the article," which was clearly inaccurate. What happened was that I first indicated a desire to respond to the criticisms in writing. Then Comrade Qiaomu gave his approval, followed by a solicitation for article from ZHEXUE YANJIU.

However, I should add that I expressed a willingness to write only after Comrade Qiaomu said that he welcomed arguments. In his report to the Central Party School as

early as 3 January this year, Comrade Hu Qiaomu already said, "I sincerely welcome them (that is, comrades who do not agree with the basic premises in my article) to take part in the debate." Then he went on to elaborate and explain this point. Clearly this was no ordinary pleasantries, like "what I say today is not necessarily correct. Comrades are welcome to criticize and correct me." My feeling was that he carefully targeted these words at people like myself. At the time, I made no comment whatever on the speech, let alone replying to it in writing. I cannot understand, therefore, how it became such a big issue. (Reportedly Comrade Qiaomu's tone was rather severe.) Even if it is true that Comrade Qiaomu made me write the article, it only goes to show his fine style; it does not mean that he had done something improper. On the other hand, even if I had written the article without being solicited, I should not be treated as if I had violated the party discipline or broken the law of the land.

Since Comrade Qiaomu's article appeared, I have not come across any articles that discuss it theoretically. Does this mean that everybody in the ideological community is completely convinced? Not so, I'm afraid. The truth is that people who think differently from Qiaomu do not believe what he said about "welcoming debate." I am the one who takes his words and deeds seriously. In this regard, I think I still respect him.

The editorial committee's party rectification bulletin said that I "insist on stirring up a controversy. Whatever his subjective motives, the objective results are highly unfavorable to the stability and unity of the overall political situation. He is challenging the party Central Committee, Comrade Deng Xiaoping, and others." This is such a serious charge that I cannot but have to say a few words in my defense. If I had jeopardized stability and unity by stepping forward and starting a debate, then Comrade Qiaomu should not have welcomed debates in such an earnest tone in his article in the first place. Nor should he have consented to my writing a defense and allowed it to be published in ZHEXUE YANJIU. True, Comrade Qiaomu's article had been cleared by the secretariat of the CPC Central Committee and was highly praised by Comrade Deng Xiaoping. But they did not suggest that Comrade Qiaomu delete the words "welcoming arguments." Instead they concurred with it. Could it be that they had not considered the possibility that debates would have "unfavorable consequences for the general stability and unity?" Personally, I think they did. Document No 3 of the Central Propaganda Department, which had been examined and approved by the secretariat, was explicit, "The discussion and debate of relevant academic theoretical issues should be allowed, but they should be published primarily in professional academic journals." They wanted to control debate to prevent it from becoming a national discussion involving every segment in society. About 20 million copies of Comrade Qiaomu's article were printed. (Comrade Deng Liqun said that 20 million copies would be printed.) In contrast, had my article been published, it would have

appeared in ZHEXUE YANJIU only, which has a tiny circulation of tens of thousands. How can we compare one with the other? That is why both the secretariat and the Central Propaganda Department considered that this kind of contention would not jeopardize stability and unity. On the contrary, they hoped to create and perpetuate a climate in the theoretical community that would encourage democratic and lively discourse on an equal basis" through this kind of debate. Clearly, such a good climate will have a positive impact at home and abroad. Has my discourse with Comrade Qiaomu not contributed to the creation of just such a climate?

As for Comrade Xiaoping's comments, my opinion is that we must not interpret them one-sidedly. On the one hand, he praised the article. On the other hand, he called on the artistic, literary, and theoretical communities to abide by the principle of "letting a hundred schools of thought contend" and the "three nos principle" and said that "we should allow debates and not come down with a big stick on others." This shows the leader's magnanimity and boldness of vision. Comrade Hu Qiaomu, I recall, told a national propaganda work conference in July 1983, "Comrade Xiaoping is opposed to the 'two whatevers,' citing several examples to illustrate this point, which was reinforced once again by Xiaoping's comments on the article. This is of profound significance. Both the CPC Central Committee and Comrade Xiaoping have declared that discussion and debate should be allowed. Yet the "bulletin" of the editorial committee claimed that my stepping forward to argue with Comrade Qiaomu was challenging the party Central Committee and Comrade Deng Xiaoping. Could it be that the editorial committee believes the policy set by the CPC Central Committee and Comrade Xiaoping does not count?

#### How It Becomes a "Serious Political Incident"

Following the CHING PAO incident, the Central Propaganda Department issued a notice declaring that on the instruction of Comrade Qiaomu, my article would not be published on the mainland since it had been published in Hong Kong. Actually, what was published in Hong Kong was a draft, which I had wanted to revise further. If they decide not to publish it domestically, that is fine with me. What I do not understand is why they have to investigate it as a serious political incident. Certainly I do not approve of the way CHING PAO handled this matter. However, had it been published on the mainland first, wouldn't the Hong Kong press similarly make an issue of it? If the scoop by CHING PAO had a bad influence, wouldn't the latter situation be even worse? Of course, they cannot hold me responsible in the latter case.

Personally I hope the CHING PAO incident would not affect the implementation of the CPC Central Committee's existing policy and that the investigation would not poison the atmosphere. Involved here is the credibility of the government among the people. People should be

allowed to debate and explore complex issues like humanism and alienation, (which is different from conducting positive propaganda in the press). An effort should be made to create in our artistic, literary, and ideological communities a climate that encourages democratic and lively discourse on an equal basis, which would be conducive to uniting intellectuals, mobilizing their enthusiasm, and promoting scholarship, hence furthering the four modernizations. In science, we allow experimentation. In economic reform, we allow experimentation and exploration. It should be likewise in philosophy and social science. The more we debate truth, the clearer it becomes. The more we debate mistakes, the more they are laid bare. Once I truly realize my mistakes, I would self-criticize without any hesitation. Even if my article is a poison weed that is no match for fragrant flowers, I am only too willing to turn into fertilizers and contribute to the flourishing of the sweet-smelling blossom of Marxism.

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#### Reappraisal of Bukharin After Verdict, Rehabilitation

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[Article by Su Shaozhi 5685 4801 2535: "Reappraisal of Bukharin—Written at the time of Bukharin's Rehabilitation"]

[Text] Truth will in the end defeat power. Justice will in the end wipe out evil.

This year is the 100th anniversary of Bukharin's birthday, and also the 50th anniversary of his unjust execution by the "hellish machine."<sup>1</sup>

The reversal of the verdict and rehabilitation of Bukharin are an issue that has been at the heart of all progressive men of the world. In the view of some intellectuals of the Soviet Union and of international personalities the verdict on Bukharin was already practically reversed in the 1960's.<sup>2</sup> It was a generally felt concern whether it would be possible in the Soviet Union, now that it advocates democratization, openness, and overall reform, to obtain an official reversal of judgement and rehabilitation for Bukharin. To everybody's great joy, after half a century, on 5 February 1988, a TASS report brought the news that the Soviet Supreme Court had indeed reversed the verdict of the group of 20 men that included Bukharin.

The issue of the reversal of verdict and rehabilitation of Bukharin is important because "it is not only an issue of the historical merits or demerits of those men, but because it is felt to be a necessity for reasons of morality and justice, and also for political reasons."<sup>3</sup> "Apart from its general significance which is of historic importance, as well as having moral, theoretical, educational, and

political coherence,"<sup>4</sup> as it will also be helpful in "erasing from the image of socialism the sinister and inhuman aspects which Stalinism gave it."<sup>5</sup>

The socialist system established under the leadership of the communist party and guided by Marxism has always been regarded as the most advanced, most just, and most humane organization of a society, as it ensures and expands democracy and frees humanity from exploitation and suppression.

However, only 10-odd years after the great socialist October Revolution, there emerged in the Soviet Union the Stalinist system, which ran counter to the principles of socialism.

After the lapse of half a century, the leadership of the CPSU is now finally, most recently, dealing with Stalin and the Stalinist era in a realistic way.

In his speech at the rally in celebration of the 70th anniversary of the October Revolution, Gorbachev, secretary general of the CPSU, said: "It is precisely the lack of the necessary measure of Soviet socialist democratization that made possible the cult of the personality, and, in the 1930's, the ruin of our legal system, as well as despotism and suppressions. Frankly, those were truly atrocities perpetrated by the misuse of power." "The large-scale suppression and illegal activities committed by Stalin and his trusted followers are huge and unforgivable misdeeds inflicted on the party and the people."<sup>6</sup>

On 27 December 1987, Ryzhkov, chairman of the USSR Council of Ministers, told correspondents of the Swedish DAGENS NYHETER that the Stalin era was a most difficult and most tragic era in the history of the Soviet Union. "The long line of serious mistakes committed during that period deviated from the principles of socialism in their senseless vindictiveness, all that is forever unforgivable," "Stalin was intent on abandoning the Leninist principles, and rather instituted a militarist dictatorship as the leadership system in party and government."<sup>7</sup>

On 5 February 1988, the Supreme Court of the USSR stated in its report on the reversal of the verdict on the 20 men, including Bukharin: "We have found on examination that in this case the advance investigations played absolute havoc with the socialist legal system, fabricated false evidence, and used impermissible methods to extort confessions from the accused," "we revoke the verdict of the military tribunal against Bukharin and the others accused because there is nothing criminal in their actions; the case against them is unfounded."<sup>8</sup>

There can be no doubt as to the existence of Stalinism. It produced the "great trials" of the 1930's and brought on a time of great tragedy for the Soviet Union. Today, when the socialist countries are in the process of conducting political and economic reforms, of bringing

about democratization and greater openness, we naturally think back at the debates of the 1920's and 1930's and at Bukharin's writings. It is highly significant, therefore, to reacquaint ourselves with Bukharin's thoughts and policies, and to study them.

#### **Bukharin's Ideas and Policies are an Elaboration of Leninism**

Stalin himself and the "Short Course on the History of the Communist Party (Bolshevik) of the Soviet Union," written under his direction, propagated Stalin as Lenin's most faithful comrade-in-arms and student, and as having written the most profound commentaries and theoretical proof of Leninism. The emergence of Stalinism was therefore pictured not as a fortuitous event, but as the natural consequence of Leninism-Bolshevism. The facts, however, were that ever since the end of the civil war and since the start of the New Economic Policy [NEP], the true heir to Leninism, and the man who truly enriched Leninism, was Bukharin.

Bukharin was the champion and interpreter of NEP, also the guardian and interpreter of the thoughts of latter-day Lenin. But he did not copy Lenin's thoughts indiscriminately, intact, and untouched, he rather elaborated whatever was inherent and implied in Lenin's thoughts. As to the first-mentioned point, this is already generally acknowledged, and we do not have to adduce proof for it here. I shall rather concentrate on a discussion of the relationship between Bukharin and the thoughts of latter-day Lenin, because this issue is relevant to today's reforms in the socialist countries, and particularly to the extremely important problem of democratization of party and government organs.

During the last years of his life, Lenin had earnestly pondered the realities of the Soviet state at that time and its problems, and reviewed experiences and lessons of the past. He not only maintained and developed his ideas on NEP, but also set forth copious ideas on socialism. In his article "On Cooperation," Lenin said: "In the beginning we placed main emphasis, and rightfully so, on political struggle, revolution, seizure of power, etc.," but now that the power is already in the hands of the working class, and the power of the exploiters has been overturned, "we have to acknowledge that our whole outlook on socialism has essentially changed."<sup>9</sup>

The essential change in Lenin's outlook on socialism is manifested in: 1) that he did not closely link socialism anymore with class struggle; 2) that his methods for economic construction were no more methods of revolutionary action, but that he favored "adopting a 'reformist' method, a gradual, cautious, and circuitous method."<sup>10</sup> "The so-called reformist method is one that does not overturn the old socioeconomic structure—commerce, small trade, small enterprises, capitalism, but by which commerce, small enterprises, capitalism, will be invigorated, and control of all of it achieved carefully and gradually, or in other words, a method that will

subject them to state regulation only to the degree that they will have become prosperous";<sup>11</sup> 3) that the cooperative societies are to be a means of transformation, which the peasants will feel to be the simplest, easiest, and most acceptable method. Lenin regarded "a system of civilized cooperators as a system of socialism,"<sup>12</sup> and he placed no further emphasis on the dictatorship of the proletariat. As regards the pace of the transformation, it must not be pushed too impatiently and too rapidly. Lenin said, we must first develop cooperatives in the area of circulation, this will take "a whole historical epoch; at best we can achieve this in one or two decades."<sup>13</sup> 4) that restructuring government organs and effecting a cultural revolution are two important epoch-making tasks. We see in his last few articles that Lenin deeply felt that in economically backward countries it will be an extremely arduous task to eliminate the vestiges of feudal autocracy and to overcome the semi-Asiatic obscurantism. Lenin found the Soviet state organs and party organs to be in a highly unsatisfactory condition. He saw them as overstaffed, seriously bureaucratic, and "utterly useless." For this reason, Lenin suggested "that it is necessary to effect a systematic restructuring of our political system,"<sup>14</sup> that government agencies be reduced and simplified, and that economies be instituted. He especially opposed their bureaucratism and emphasized the need to strengthen their contacts with the masses, to have them accept supervision by workers and peasants, and to prevent power to become excessively centralized. In actual fact, he raised the issue of political and economic reforms, and of democratization of party and government organs.

Bukharin inherited these brilliant ideas from Lenin's later years. Bukharin's ideas completely negated a policy of war communism, and favored a further elaboration of NEP ideology. But Stalin's inheritance was the most extreme idea of war communism—heightened class struggle, total interference by the state, coercive methods, and extreme policies. All socialist states, including China, were deeply influenced by Stalin. They did not understand Lenin's ideas from his later years and acted contrary to these ideas in that they used coercive methods and impatiently sought to effect their transition to socialism or even to communism. As a consequence they encountered many complications and committed many mistakes. Only as late as 1978, at the 3rd Plenum of the 11th CPC Central Committee, was the "twofold all is correct" policy criticized, and the slogan of "class struggle is the key" abandoned, when, furthermore, the focal point of work was shifted to socialist modernization. In 1987, the 13th CPC National Congress for the first time affirmed that China is still standing at the initial stage of socialism, and a series of measures were adopted which closely approximated Lenin's ideas in his latter years. It was in this way that China opened a road which enabled an advance toward a socialism with Chinese characteristics, initiating new developments in China's economic system and democratic institutions.

In 1922, when Lenin was sick and resting at Gorki, Bukharin was the only member of the Politburo who

frequently went to see him. The friendship between them was unusually cordial, and they used to discuss politics, the science of leadership, and also Lenin's last writings. Soon after Lenin died, Bukharin interpreted these last articles to be Lenin's "political testament."<sup>15</sup>

Whatever Bukharin supported and what he opposed is evidence that Bukharin was not only an interpreter and champion of NEP, but also an interpreter and champion of the ideas of Lenin's later years, ideas on which he then further elaborated.

What Bukharin supported and what he opposed is best summarized by Stephen F. Cohen, as I shall quote now. He said: "Bukharin became the great critic of the willful temptations of monopolistic state power incited by ideological zealotry—the opponent of warfare measures and great leaps, administrative caprice and lawlessness, overcentralization and parasitic bureaucratism, and megalomania and systematic inefficiency."

"Instead, Bukharin advocated evolutionary policies that would allow the peasant majority and private sector to prosper and to 'grow into socialism' through market relations. He wanted a pattern of social development based on what he called 'socialist humanism' and on the principle that 'our economy exists for the consumer, not the consumer for the economy.' Rejecting 'Genghis Khan' schemes, he proposed a form of economic planning that combined rational flexible goals set at the top with the 'initiative of lower agencies, which act in accordance with the actual conditions of life.' ... He eulogized the party's political dictatorship, but he insisted on the role of 'Soviet law, and not Soviet arbitrariness, moderated by a nominal ombudsman.' Similarly, in cultural and intellectual life, he energetically defended policies based on the 'principle of free, anarchistic competition' rather than 'squeezing everybody into one fist.'"<sup>16</sup>

#### **Bukharin's Ideas and Policies as a Possible Alternative to Stalinism**

Another school of thought believed that since Stalinism was the inexorable product of Leninism and Bolshevism, there was actually in the whole history of the Soviet Union no alternative to Stalinism (hereafter "Stalinism-alternative").

For many years, most professional writing about Soviet history, in the West and in the Soviet Union, was based on the axiom that there had been no Stalinism-alternative. Despite their antithetical values and purposes, both Western Sovietologists and official Soviet scholars were proponents of a historical doctrine that excluded alternatives, though in different ways and for different reasons.

In actual fact, whatever progress there has been in the socialist economy of the Soviet Union is only due to the vitality of the socialist system itself and the Soviet

people's arduous struggle and spirit of sacrifice, while Stalinism was merely the cause of destruction and losses, of adverse influences on the economic development, and was playing only a negative role. The economic construction in the Soviet Union cannot be credited to the Stalinist system.

It is also not possible to say that there had been no Stalinism-alternative in the history of the Soviet Union. Actually, in the 1920's, when the various Bolshevik factions openly debated the country's problems, there were many who perceived of solutions different from those of Stalin. All socialist states are now in the process of reforms which are to suit the particular national conditions of each particular country, and this is an additional proof that socialist construction can indeed find Stalinism-alternatives of various sorts.

We cannot regard Trotskyism as a Stalinism-alternative. Especially in matters of economic construction and in relation to the peasantry, Trotsky, in the 1920's, proposed expropriating from the peasants and effect socialist primitive accumulation, demanded super-industrialization, to "tighten the screw," unitary economic planning, and other coercive military measures. These measures were all later, after 1929, adopted by Stalin.

In the early years of the 1930's, as the Stalinist system began to take shape, the most powerful Stalinism-alternative, especially of theoretical power, was, therefore, the ideology of Bukharin. The NEP ideology which Bukharin supported, propounded, and developed and the ideas of Lenin's later years contained advance warnings against the formation of the Stalinist system and rule.

As it is the case with all theorists, Bukharin unavoidable was right and also sometimes wrong. We do not intend to raise Bukharin to the status of an idol of theory—as we oppose making anyone else out to be an idol of theory; we also do not suggest mechanically applying Bukharin's ideas for today's use—as we are opposed to any kind of dogmatism.

I believe the significance of the Soviet Union officially reversing the verdict on Bukharin and the others who were interrogated and executed in the 1930's is that the communist party wishes to show that it has the courage to face the truth, the courage to expose and eradicate "the sinister and inhumane aspects on the image of socialism," an action which has the useful consequence of restoring the reputation of socialism.

The Soviet Union did not remain the only place where Stalinism was practiced, variations of it appeared in many other countries, as, for instance, under Rakosi in Hungary, but the system was everywhere the same. Study of Bukharin's ideas, especially studying his awareness of the danger of totalitarianism to countries, and his

advance warning against the formation of the Stalinist system, is therefore of great significance in smothering sources from which Stalinist systems, or variations of such a system, can evolve.

### **Bukharin's Awareness of the Danger of the State's Absolute Power**

Bukharin was at one time criticized for being an unstable intellectual, because he frequently changed his viewpoint. I believe that it is normal that every viewpoint, especially views on socialist construction, should change as developments change with time, because of a lack of practical experiences. How many times did Lenin change his views, e.g., as to his views before the October Revolution, before the civil war in 1918, during the time of war communism, during the years of NEP, down to his latter years. This just indicates that Lenin, after continuously reviewing experiences, improved and developed his original conceptions.

It was the same with Bukharin. Many scholars who have studied Bukharin regard the period from 1921 to 1924 as Bukharin's period of self-examination, a watershed in Bukharin's ideology and policies. This does not mean, of course, that there was no linkage between the two periods of his life, but is said merely to indicate that there was a change at that time which was closely linked with Lenin's ideas on NEP and Lenin's ideological development in his latter years. I shall therefore deal in my statements on Bukharin's ideas and policies primarily with the time after his self-examination of 1921-1924. Bukharin's ideas extended to many areas, and I shall emphasize the following three aspects of his observations on "Leviathan" (representing the danger of absolute power of the state), i.e. the theoretical and practical significance of his premonition and warning of the Stalinist system. This topic comprises three interrelated aspects: 1) Views on war communism; 2) Views on class struggle after the proletarian seizure of power; 3) Views on the "New" Leviathan.

### **1. Bukharin's Views on War Communism**

There is a common saying in China: "One can conquer an empire on horseback, but not successfully rule a country from horseback." It means that state power can be seized by brutal military force, but brutal military force cannot be the means of governing a country. This is self-evident, but the organizational systems of most countries under communist leadership, especially those under Stalinist influence, have emerged from years of revolutionary war and could not easily rid themselves of the influences of military methods, which may have then resulted in mistakes, or even may have led to disastrous consequences.

The civil war experiences of the Soviet Union have had a great influence on the later ideas on the Bolshevik construction of socialism. The different attitudes toward the war tradition is where the differences arose between Lenin and his follower Bukharin on the one side and Stalin on the other side.

Lenin began to use the term "war communism" in April 1921 and added quotation marks.<sup>17</sup> This explains that the Bolshevik policy of the so-called "war communism" was an extreme, coercive, and militarized policy adopted at the start only as a wartime control system to gain victory and as a method of mobilizing the limited human, material, and financial resources, and nothing else. In actual fact, it had nothing to do with the construction of socialism and the construction of communism. As the civil war dragged on, the party leadership attributed to it meaningfulness for socialist construction and even for direct transition to communism, thereby making it into a kind of ideology.

The Hungarian scholar Laezlo Szamuely once briefly summarized the basic principles of "war communism"<sup>18</sup>: 1) It expands to the largest extent the state's ownership system and the direct powers of the state; 2) It conducts coercive distribution of the labor force, and "militarizes" the labor force; 3) It has a high degree of centralized control of economic activities (production, trade, distribution); 4) It distributes according to class and social principles, and its distribution is dominated by egalitarianism; 5) It "materializes" economic life, it abolished the relation between commodities and currency, it institutes a centralized grain procurement system, stops city-countryside interchanges, and abolishes the free market; 6) It relies on the use of force, i.e., the state's coercive power, as main tool to develop and control the socialist economy,

War communism achieved victory in the civil war, and thereafter became a kind of ideology. After the end of the civil war, the fierce polemics between persons with differing views on war communism left a deep and long-lasting impression. In Szamuely's summary of the basic characteristics of war communism we can easily discern Stalinism as it casts its shadow ahead.

#### **Lenin Continuously Disavowed War Communism as a Possible Way to Build Socialism.**

In his 1921 notes "On Grain Tax," Lenin pointed out: "We were forced to adopt 'war communism' by the war and by the ruinous economy. It is not a policy, and cannot be a policy, suited to the tasks of the proletarian economy. It is a kind of a provisional method."<sup>19</sup> He also pointed out that war communism "has been roaming about too long in a forbidden zone... It is a mistake."<sup>20</sup> He pointed out that during the time from 1918 to 1920, it was assumed that once in possession of state power, it would be possible to go over directly to communist production and distribution, and this was a mistake.<sup>21</sup> This is of course also a disavowal of the policy of war communism. He clearly said: "War communism is the use of a kind of 'direct assault' method, and although it is a simple, quick, and direct method, our attempts to introduce the principles of socialist production and distribution by this method have proven a failure."<sup>22</sup> Lenin had therefore definitely decided to

replace it with the NEP, and he also held the view that Soviet economic policy had entered into its second developmental stage as from the spring of 1921.<sup>23</sup>

During the civil war, Bukharin had also been a fervent supporter of "war communism." A concrete example is his "Economics of the Transition Period," chapter 10, section 10, where he emphasizes the force of "super economics." But after the introduction of the NEP, he indirectly criticized his support of the use of force expressed in that book, and pointed out that the "force of super economics" applies only to the destructive period of the revolution. As soon as the old system is overthrown, it loses "nine-tenth of its meaning." The constructive period must be a peaceful period.<sup>24</sup> In August 1921, he acknowledged that the policy of war communism was militarily necessary, but that it was incompatible with economic development.<sup>25</sup> He also acknowledged that the structure of the Soviet state during the war had the character of a military proletarian dictatorship, that production was militarized production, but after war turned into peace and after the sharpest crisis in the economy had passed, there was no further need for forms of extreme economic controls. "The form of Soviet state power must change in the sense of gradually eliminating and eradicating the vestiges of war communism."<sup>26</sup>

Following a more profound understanding of the NEP, Bukharin adopted more and more a critical attitude toward war communism and the mentality he had formerly maintained during the civil war, namely to achieve economic and social transformation through high pressure rule by the proletariat.

Stalin had never shown any deep-felt opposition against the tradition of war communism. On the contrary, in 1929 he arrived at the conclusion that there was a need for "revolution from top to bottom" with the principal content of one-sided development of heavy industry, compulsory collectivization, and large-scale terrorist suppression. Bukharin, however, arrived at the following understanding from his experiences with "war communism": Opposition against the extremism of war communism; class struggle to be relaxed and, furthermore, to be manifest itself mainly in market relations; industry to be developed only on the foundation of agricultural development; emphasis on domestic peace; establishment of friendly cooperative relations with the peasantry; opposition to the proletarian coercive and endless nationalizations; anxiety about the possibility that excessive centralization of party and state power will have dire consequences.

#### **2. Bukharin's Views on Class Struggle After Seizure of Power by the Proletariat**

There is no argument about class struggle in the capitalist society and during the civil war. The problems are: What is the difference to class struggle in the past, now that the proletariat has seized power, resistance by the exploiting class has been suppressed, and the country had entered a



period of peaceful construction? What are the main characteristics of class struggle and its developmental orientation during the time of transition toward socialism? And derived from these questions, the question: what line will the proletarian political party follow with regard to the peasantry, now that the party is engaged in socialist construction? And finally, views on the totalitarian state.

The different views regarding the above-mentioned questions had been an important problem in the debates in the Soviet Union of the 1920's and 1930's. The result of the debates has had a profound and far-reaching effect, not only on the Soviet Union but on all the other socialist countries.

The victor in these debates in the Soviet Union was Stalin. He distorted Bukharin's ideas, endlessly exaggerated them, and branded them as doctrines of "extinguishing class struggle" and of "peacefully growing into socialism," meant as criticism and as demonstration of criminal intent. Stalin had his own thesis, "there will be heightened class struggle as socialism progresses," which he had raised to official viewpoint. He said: "The more progress we make, the more victories we win, the more fiendish will the vestiges of the routed exploiting classes become. They will employ fiercer forms of struggle, they will try harder to harm the Soviet state, and they will adopt sharper struggle methods for their last-ditch fight in a most hopeless struggle."<sup>27</sup>

This view became the principal tenet of Stalinism—revolution from top to bottom, large-scale suppression, and the view finally became the theoretical basis for a totalitarian regime, though all the three fundamental facts on which this theory was based were completely inconsistent with the reality, as history has proven.

Stalin's thesis that class struggle will grow increasingly fiercer was in the past accepted for a long time by the communist parties of all countries and exercised a certain influence. Not only did all socialist countries adopt the Stalinist pattern in their institutions, but there even occurred in the early 1950's a series of executions of innocent persons in the socialist countries of Eastern Europe, such as the Rayk case in Hungary, the Slansky case in Czechoslovakia, etc., which resulted in huge losses for the socialist countries.

It is therefore of great theoretical and political significance to clarify all these questions, to restore the original character of Bukharin's theory about class struggle after the proletariat shall have seized state power, and to criticize Stalin's view that class struggle will grow increasingly fiercer.

Bukharin's theory was not at all, as Stalin blamed it, one of "extinguishing class struggle" and "a thesis of peacefully growing into socialism." The way Bukharin was branded as allegedly "extinguishing class struggle" was done in the "Short Course of the History of the Soviet

Communist (Bolshevik) Party" as follows: "He says that the greater the successes won by socialism in its struggle against capitalist components the more will class struggle ease up, and he says that class struggle will then very quickly become extinct, the class enemy will without resistance surrender all his positions; and he says it will be completely unnecessary to stage an attack against the kulaks."<sup>29</sup>

Bukharin never put forward any such "thesis of extinguishing class struggle." Neither before his self-examination in 1921-1924, nor after it did Bukharin negate class struggle. In October of 1923 in his "Toward a Critique of the Economic Platform of the Opposition" he said: "If one says that the dictatorship of the proletariat provides the context for a certain 'collaboration among classes,' which expresses the unity of the social whole, that by no means spells the end of class struggle. Rather, the struggle assumes a new form and a completely different tendency of development than under capitalism (for under capitalism it becomes more acute, until the whole of society splits and disintegrates, whereas after a certain point in the successful movement toward socialism, it begins to 'wither away')."<sup>30</sup>

In a 1925 article, "The Road to Socialism and the Worker-Peasant Alliance," he said: "As we know very well, the class struggle does not halt and die out immediately, but will persist for a very long time, until class divisions in general disappear forever. Yet even now we see how the main direction and forms of the class struggle are inevitably changing... In capitalist society the party of the working class is the party of civil war. The position is completely reversed when the working class takes power into its own hands, supported by the broad strata of the peasantry. As the dictatorship of the bourgeoisie is destroyed and replaced by the dictatorship of the proletariat, the task of the working class becomes one of strengthening this dictatorship and protecting it against all encroachments. The party of the working class, under these conditions, becomes a party of civil peace, i.e., it demands submission from the former ruling classes, strata, and groups. It demands civil peace from them."<sup>31</sup>

In his 1927 article "Leninism and the Constructive Period of the Proletarian Revolution," Bukharin talked in a rather concentrated manner on the law of class struggle during the transition period. He said: "The main road for the transition from capitalism to socialism is a road of diminishing contradictions and their final extinction. However, this does not preclude that these contradictions may sharpen at a certain developmental period, ... that even in times of 'peace,' it also does not preclude the sharpening of class confrontations."<sup>32</sup>

To sum up, Bukharin's fundamental viewpoint was that after seizure of power by the proletariat, class struggle will not cease, but will adopt other forms. He demanded maintenance of domestic peace in order to benefit construction and in order that the developmental tendency



of class struggle will be a diminishing of contradictions and their final "dying out." But this process will be one of evolution and will not preclude sharpening contradictions at certain periods. His thesis did indeed express the view that class struggle will "ease up with time," which is not only a fact, but also in complete accordance with Lenin's ideas."<sup>33</sup>

As to the idea of "growing into socialism," that was indeed one of Bukharin's viewpoints. In his 1922 "Report on the Question of Program at the Fourth Congress of the Comintern," Bukharin said: "In the statements of revisionism people often talk about the question of growing into socialism. The viewpoint of revisionism is that capitalism will grow into socialism. We can well say that we shall not be able to fulfill our task by single decrees, by single compulsory measures. It is a prolonged organic process. Strictly speaking, it is a process of really growing into socialism. But the difference between the revisionists and ourselves will show up when the process of growth begins. The revisionists do not want any kind of revolution. They maintain that this process begins already in the bosom of capitalism. We maintain that the process begins only after establishment of the dictatorship of the proletariat. The proletariat must destroy the old bourgeois state, seize state power, and with the help of this lever change economic relations. We are facing here a lengthy process of development, in the course of which socialist forms of production and distribution obtain an ever wider dissemination and, in that way, gradually displace all the vestiges of capitalist society, until the capitalist society is completely transformed into a socialist society."<sup>34</sup>

Here, Bukharin makes a clear distinction between his view and that of revisionism as regards "growing into socialism." His idea of "growing into" has two meanings, one is that the period of transition to socialism is a "prolonged organic process," is a "process of evolution," but not one achieved "through purely compulsory measures." The other meaning is that "the system of proletarian dictatorship will go on to communism without any form of revolution."<sup>35</sup> He also regularly repeats the phrase that "there is no need for a third revolution." The "revolution" that Bukharin refers to here is of course a social revolution, i.e., a revolution in which one class overthrows another class.

Practice has proven that Bukharin's viewpoint is correct.

Under the conditions of proletarian dictatorship, the question of the so-called "growing into socialism" actually concerns the relationship between workers and peasants, that is, the need for persuasion and education of the peasants, the principle of voluntary action, gradual remolding, guiding the individual peasants through cooperative societies on to the road of collective ownership, and not to use methods of force and expropriation. Bukharin said: "In the process of building socialism, no large-scale compulsory measures must be used." There shall be a peaceful economic transformation of the

bourgeoisie and the rich peasants, and they shall be squeezed out by economic struggle, until this exploiting class will finally disappear, and the forcible suppression and expropriations of the early years of the revolution must not be applied again. Bukharin's shortcoming was that he underestimated the resistance of the kulaks in the Soviet Union at that time. Bukharin believed in peaceful methods, while Stalin only believed in force.

Practice has proven that Stalin's "revolution from top to bottom" has inflicted heavy human and material losses on the Soviet Union. In China, because it was still in its early stages, socialist transformation of agriculture, handicraft industry, and capitalist industry and commerce was conducted in accordance with the principles of voluntary action, mutual benefit, and gradual progress, and because measures of force, suppression, and expropriations were not resorted to, the transformation was realized comparatively smoothly, and no great losses were suffered as in the Soviet process of collectivization, and production in China could even be increased. However, in the process of forming the people's communes, these principles were disregarded, which dealt a blow to the enthusiasm of the peasants, and resulted in huge losses in production. Finally, after somewhat over 20 years, the people's communes had to be abolished, and a system of joint production contracts was instituted, i.e., a system of fixing farm output quotas for each household to allow agricultural production to recover and achieve a very satisfactory degree of development.

This is the theoretical and political significance of rehabilitating Bukharin's theory on the question of class struggle.

### 3. Bukharin's Views on the "New Leviathan"

When studying the imperialist countries during World War I, Bukharin used the term "Leviathan" (the totalitarian state) to picture the phenomenon of the various imperialist countries which were then increasing their powers and expanding their functions.

In his book "Imperialism and World Economy," Bukharin said: "Finance capital brought the various parts together into several centralized organizations, forming one 'military reactionary group.' 'Democracy' and 'Liberalism' as trends of thought have been openly replaced by the monarchist trend of contemporary imperialism. And contemporary imperialism has always been in need of dictators... 'Power' has become the ideal of the contemporary bourgeoisie." "The contemporary state is also the highest development of the state capitalist trust, embracing all organizational forms, thus assuming huge powers of amazing proportions."<sup>36</sup>

In his opinion, the most alarming characteristic of imperialism is the new interference function of the state. The state intrudes into every detail of social life through its regulation of the entire economy and "militarization."

In his "Imperialist Robber States" he said: "The states have grown increasingly gigantic. ...In this way the state has become a unitary all-embracing organization, thus the contemporary imperialist robber state, that bourgeois all-embracing organization occupying ruling position, has assumed countless functions and huge powers. It has spiritual powers (various deceptive devices: religion, publications, schools, etc.) as well as substantive powers (police, armed forces). ... That is today's monster, that is today's "Leviathan" state."<sup>37</sup> He also pointed out: "The life of a state organization that had become all-embracing—not the life of society, but that of a state—moved to the forefront. In his "Leviathan" old Hobbes wrote that there is no power to compare with that of the state, but his Leviathan would seem like a puppy compared to the monstrous force displayed by the state apparatus of finance capital."<sup>38</sup>

In his theory of the "New Leviathan," Bukharin had premonitions of the impending dangers of totalitarianism and fascism in European political life, which made him the first person to engage in a thorough analysis and condemnation of fascism. As Acton's famous saying goes: "Absolute power will corrupt absolutely." Every country with absolute power will show the characteristics and defects of a "New Leviathan." Bukharin applied Acton's satirical phrase to the 20th century to express actually his anxiety about the deformation and transmutation of the Soviet state under the leadership of Stalin. Here I would like to analyze in particular the latter question, namely Bukharin's awareness, under the socialist system of the Soviet Union, of the danger of the state possessing absolute power.

Professor Zou Dang [6760 6249] of the University of Chicago in the United States once said in a report he gave in Beijing, totalism, i.e., the state's comprehensive interference in all social and personal affairs, is necessary at certain times, e.g., in war, when it will also be tolerated. But the dangerous thing about it is that if it is extended and exceeds the certain limit, it will change into totalitarianism. The phenomenon of the "New Leviathan" in socialist countries has occurred for just this reason.

During the civil war, the Soviet Union instituted war-time proletarian dictatorship because of the extreme supply difficulties and the ravages of war. The dictatorship of the proletariat was conducted by the party or rather a small group of leaders, with copious use of force and coercive measures, effecting something coming close to the state interferences of "totalism." At that time none of the Bolshevik leaders had any objections.

When the civil war had ended, Lenin, in 1922, opposed the emergence of an increasingly totalitarian and bureaucratic trend of having a small oligarchy make all decisions, opposed the excessive centralization by the central authorities and the concentration of power in the hands of certain individual leaders, opposed party interference in the affairs of state, and criticized the use of methods

related to war communism.<sup>39</sup> In 1925, Bukharin explicitly demanded to abolish the system of military proletarian dictatorship dating from the time of war communism. He demanded that a revolutionary legal system replace administrative arbitrariness, that proper arrangements and administration of affairs replace methods of confiscation and requisitioning inflicted on the working class and the peasants, that a thorough, complete, and unconditional adoption of methods of persuasion replace the method of edicts and directives, and, even more persistently, that the large stratum of the working population be attracted to participate in the affairs of state.<sup>40</sup>

After Lenin's death, the powers of the party and the state became more and more concentrated in Stalin's hands. Especially after the grain crisis of 1927-1928, Stalin emphasized for the purpose of grain procurement, that he would not preclude necessary administrative measures. In 1928, he started to use "Siberian methods" in grain procurements. Contrary to Bukharin's plan of economic evolutionism, the Soviet Union leapt into the First 5-Year Plan and compulsory collectivization, which resembled methods of war communism.<sup>41</sup> This ended finally in the formation of the Stalinist regime with its cult of the personality and highly centralized, rigid forms of economic and political administration by the central authorities.<sup>42</sup>

In the later years of the 1920's, Bukharin issued advance warnings against the Stalin model, which he saw essentially as a "New Leviathan." However, because of the dispersed presentation of his ideas and his constant use of language in the style of Aesop's Fables, he had difficulties enunciating his thesis of the "New Leviathan." In summary, his thesis comprised more or less the following points:

Limitless nationalization and compulsory collectivization will create a centralized economic rule. Bukharin believed that the Soviet Union expropriated small-scale producers too early, with the result that it created an "enormous administrative organization," and that the compulsory collectivization, because of handing down command-type norms and instituting a system of compulsory sales to the state, actually brought the peasants into the orbit of the state. This made possible economic rule of total centralization, followed by excessive interference. The economic rule of total centralization is similar to the absolute monopolies of capitalism. "Under the conditions of absolute monopoly,... there easily occurs stagnation and easily develops bureaucratism."<sup>43</sup>

He wanted to forestall the danger of "bureaucratization" of party and state organs. Lenin's later writings showed an increasingly sober awareness of the bureaucratism in party and state organs. His last letters and several articles contained heavy-hearted warnings against the "disgusting bureaucratization." When Bukharin was warning people against the danger of allowing a centralized economic rule, he also was concerned about the growth

of bureaucracy. He thought the state had eliminated the economy of small-scale producers too early, and in the development of modern industry was blindly pursuing the aim of building up enterprises, the bigger the better, which obviously did nothing to stop the growth of an enormous administrative organization, and which also gave rise to bureaucratization and the evil of bureaucratism. Centralization developed into bureaucratic centralization. "Bureaucratization" inevitably created organizational inflation, formalism, red tape, inefficient management, great waste, confusion in work relations, economic stagnation, and even social degeneration.<sup>44</sup> Besides, bureaucratism inevitably leads to becoming divorced from the masses, divorced from reality, and senior officials will easily tend to form an isolated, privileged stratum, which Bukharin criticized in his "Theory on Organized Bad Management." His criticism was directed against the West, but one may read between the lines that it was aimed at the domestic problem.

He wanted to guard against the influence of "backwardness" dating from tsarist times. Because of vestiges of the serf system of old tsarist Russia, the organization of the tsarist state was characterized by an "Asian autocratic system." Its influence was still deep-rooted even after victory in the revolution. In a country of this nature, Stalin was emphasizing a continuous "strengthening of the state," while Bukharin was worried that combining the elements of "backwardness" from tsarist Russia with the institutions of a modernized state would result in "backward socialism," which in turn would lead to resorting to "terrifying methods" in order to establish socialism in the Soviet Union. He foresaw a dark future: the compulsory collectivization and "super industrialization, accompanied by Stalin's theory of the increasingly fiercer class struggle. The result of proceeding on this road will end up in a police state."<sup>45</sup> Bukharin emphasized that he wanted to establish a socialist legal system, and that he was concerned about eliminating the state's power in the process of ensuring rapid social development.

He wanted to prevent that strengthening the state, strengthening the proletarian dictatorship and emphasizing highly centralized unified leadership, would finally end up in a complete merger of party and government, and would put the power of the party and the state concentratedly into the hands of one person. Bukharin was afraid of the following situation: The merger of the political power of society and the economic power into an unprecedented unison of power, with every organization bearing signs of being "nationalized", and an all-pervasive veneration of the state. He believed that this kind of state power, even if it were a Soviet country, would present problems in that powers could be misused, and that the system would harbor the potential of exploitation. But if the proletarian dictatorship practiced during the war, i.e., dictatorship of the party, even if it was a method of dictatorship by a small group of leaders, would not be changed, if the dictatorship is not changed into a proletarian and democratic dictatorship, it would

end up in a merging of party and government, and state worship would then turn into worship of one leader. Bukharin believed that this contains "the danger of degeneration of the proletarian state and of the political party of the proletariat."<sup>46</sup>

In 1922 Lenin set forth the idea of a separation of party and government. He said: "It is necessary to separate most distinctly the functions of the party (and its central committee) and those of the Soviet government... The task of the party is to effect overall leadership for all government organs and all work, and not, as it is now the case, to engage in interferences which are much too frequent, abnormal, and often trivial interferences."<sup>47</sup> Lenin opposed the method of bringing administrative work of the People's Council to the Politburo for discussion, and showed great vigilance against the trend of excessive centralization. He said: "On this point I have made a great mistake because the People's Council and the Politburo have been much contacted by myself. As soon as I left work, the two wheels immediately stopped turning."<sup>48</sup> But Lenin's idea was never implemented. The party, the government, later also the military, all the great power became more and more centralized in the hands of the one person, Stalin. Bukharin saw already in 1928 the danger of the unison of party and government in the Soviet Union. In a conversation with Kamenev he said: The source of the trouble is the unison of party and state."<sup>49</sup> Actually, the masses under the guidance of the party should be relied upon to put a stop to the dangerous tendency, the state should not be mixed up with the party, to avoid that party and government and its bureaucratic organs combine into one entity. In 1928 Bukharin said: "In the many pores of our organs there are also degenerate bureaucrat elements."<sup>50</sup> He was worried that these degenerate bureaucrat elements could produce a new ruling stratum based on "monopolistic" power and privileges.

Aiming at the above-mentioned problems, Bukharin said: "We are too centralized. We must ask ourselves: Should we not take some steps toward Lenin's commune state."<sup>51</sup> He later added in more specific terms: "After all, viewed from a remote perspective, our state organs are this kind of an organization: In the future they will comprise thousands upon thousands of people, comprise all workers, be a certain stage in the transition toward the commune state; it is a pity that we are still far, far away from that kind of a commune state."<sup>52</sup> The "commune state" was of course still a fantasy. What Bukharin was imagining were Lenin's later ideas about the democratization of the party and state organs and the democratization of the proletarian dictatorship.

In an almost "totalist" autocracy, the revolution will gradually lose its basic socialist content, especially the political ideology and democratic institutions. At that time it would become impossible to follow its ideology, i.e. the ideology of latter-day Lenin, even Bukharin himself was falsely accused and cruelly executed. All party, political, and military power became concentrated

in the hands of Stalin, whom each and everyone had to worship, who had overall authority, who abused his power, destroyed the legal system, and this finally ended in the Stalinist, highly centralized regime of the Soviet Union, the Stalinist pattern. In his book "The History of the Stalin Phenomenon," the famous French historian Jean Elleinstein said: "Combination of a state with all-embracing control and a party with all-embracing control, and again combining this party with all-embracing control and an all-controlling Stalin that is what produced 'the phenomenon of Stalin.'" A statement that truly hits the mark.

The Stalinist pattern was emulated by one after the other of the socialist countries in which the communist party came to power after the war. The "New Leviathan" phenomenon that Bukharin had been so concerned about became a reality to varying degrees and not only left socialism no chance to manifest its superiority, but also resulted in many complications and mistakes, and finally even in a serious crisis.

Now, under the leadership of Gorbachev, the Soviet Union is undertaking a comprehensive reform and naturally directs its attacks against "the cult of the personality, the system, established in the 1930's, of controlling the country by administrative orders, and the perversities of bureaucratism, dogmatism, voluntarism, arbitrariness, and the stagnation, lack of principles, and obstructions that occurred in the latter part of the 1970's and early years of the 1980's."<sup>53</sup> In his speech at the mass rally in celebration of the 70th anniversary of the October Revolution, Gorbachev said: "Socialist democracy is the soul of the reform. The degree of democratization will determine success or failure in the reform, and we may say without the slightest exaggeration that it will also decide the future of socialism as a whole."<sup>54</sup>

Reform and democratization are the main trends in today's socialist countries. To succeed, it is critical that they eliminate the source from which a "New Leviathan" may emerge. In concrete terms, the Soviet Union must eliminate any source from which Stalinism could develop. Although Bukharin had presented his views in a scattered uncomprehensive manner, the study of his views is of a certain immediate significance.

#### Footnotes

1. See Bukharin, "A Letter to the Party Leaders of the Next Generation"
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3. K. Coates, "The Case of Bukharin," English ed., 1978, p 91
4. Op cit, p 193
5. Richard Day, ed. "N. I. Bukharin, Selected Writings on the State and on the Transition to Socialism," English ed., "Foreword" by Stephen F. Cohen, p 21
6. Gorbachev, "The October Revolution and Reform: The Continuation of the Revolution"
7. United Press wire from Stockholm, 27 December 1987
8. TASS report, Moscow, 5 February 1988
9. "Selected Works of Lenin" Chinese ed., Vol 4 p 687
- 10-13 Idem, Vol 4 pp 574, 575, 684, 684
14. "Collected Works of Lenin" Chinese ed., Vol 36 p 615
15. Stephen F. Cohen, "Bukharin and the Bolshevik Revolution," Chinese ed., pp 221, 223
16. Stephen F. Cohen, "Rethinking the Soviet Experience," English ed., p 77
17. "Collected Works of Lenin," Chinese 2nd ed., Vol 41 p 211
18. Szamuely, "The First Model of a Socialist Economic System," Chinese ed., 1983, Chapter 2
19. "Selected Works of Lenin," Vol 4 p 517
20. "Collected Works of Lenin," Chinese 2nd ed., Vol 41 p 56
- 21-23 Idem, Chinese 1st ed., Vol 33 pp 43, 70, 61
24. Stephen F. Cohen, "Bukharin and the Bolshevik Revolution," Chinese ed., p 201
25. Idem, p 204
26. "The Roads to Socialism and the Worker-Peasant Alliance," in "Selected Writings of Bukharin" [Chinese ed.], People's Publ. Co., 1981, Vol 1, p 453
27. "The Defects in the Work of the Party and Measures to Eliminate the Trotskyite Double-Faced Faction," in "Selected Works of Stalin" Chinese ed., People's Publ. Co., 1962 p 129
28. Idem, p 112
29. "Short Course on the History of the Communist Party (Bolshevik) of the Soviet Union," Moscow, Foreign Language Press, Chinese ed., 1948, p 361
30. "Selected Writings of Bukharin," Vol 1, People's Publ., Co., 1981, p 295

31. Idem, p 430
32. Idem, Vol 2 p 203
33. See "On the Grain Tax, Outline of a Book," in "Collected Works of Lenin," Chinese 1st ed., Vol 32 p 315
34. "Selected Writings of Bukharin," Vol 1 p 63
35. "The ABC of Communism" Chinese ed., Sanlian Book Co., 1982, p 71
36. Bukharin, "Imperialism and World Economy," China Social Science Publ. Co., 1983, p 101
37. "Selected Writings of Bukharin" Vol 2, pp 248-249
38. Bukharin, "The Economics of the Transition Period," Chinese ed., Sanlian Book Co., 1981 p 11
39. "Collected Works of Lenin" Chinese ed., Vol 33 pp 221, 231
40. "Selected Writings of Bukharin," [Chinese ed.] Vol 1, pp 452, 454
41. Richard Day, ed., "N. I. Bukharin, Selected Writings on the State and the Transition to Socialism," English Ed., p 298
42. "Gorbachev's Report to the February Plenum of the Central Committee," Xinhua News Agency wire, Moscow, 18 February 1988
43. "Selected Writings of Bukharin," Chinese ed. Vol 3 p 423
44. Idem, pp 423-426
45. "1982 Meeting Between Bukharin and Kamenev," in "On Bukharin and Bukharin Ideology," Guizhou People's Publ. Co., 1982, p 101
46. "Selected Writings of Bukharin," Vol 1, p 58
47. "Collected Works of Lenin," Chinese 2nd ed., Vol 43 p 64
48. Idem, p 111
49. "Bukharin in Revolution and Reform," The (Gelanxi) Institute, 1982, in Italian, p 149
- 50-51 "Selected Writings of Bukharin," Chinese ed. Vol 2 pp 299, 298
52. Idem, p 356
53. "The October Revolution and Reform: the Continuation of Revolution," Speech by Gorbachev at the Rally in Celebration of the 70th Anniversary of the October Revolution
54. Gorbachev's Report to the February Plenum of the Central Committee, Xinhua News Agency wire, Moscow 18 February 1988

## NATIONAL AFFAIRS, POLICY

### **Economist on Price Reform, Inevitable Difficulties**

40060459 Beijing JINGJI RIBAO in Chinese  
10 Jun 88 p 3

[Article by Sun Guohua 1327 0948: "After Nine Years of Price Reform, Economists Arrive at Similar Conclusion—There Are Certain Difficulties and Dangers That Cannot Be Avoided in Reform, but Telling It Realistically to the People Requires That We Persevere in Investigations"]

[Text] In the last nine years of reform, price reforms have taken several large steps. The price system has developed towards gradually becoming more systematic. This has served very well to promote the development of manufacturing and movement of commodities and in regulating the industrial mechanism. However, since 1984, because the relationship between various aspects of the economy has become closer, several of the preplanned price reform measures that were scheduled cannot be implemented. So today, the economic reforms are facing the following conditions: First, total social demands exceeds total supply, and so currency distribution is excessive and the impetus of currency inflation has grown rather than decreased. Especially since the financial situation is uncertain, the people have a certain capacity to tolerate price increases, but it is still not a great enough capacity. Another aspect is that the price system is exhibiting a new twist. For example, after prices were raised on raw materials, the price of manufactured goods also went up accordingly and the price ratio returned to its original relationship, or, in some cases, actually became less reasonable than the original relationship. Regarding the internal price ratio for agricultural products, since the mechanisms for releasing and controlling prices had become different, new unreasonableness developed in the price ratio. The price of grain, etc., remained too low while the double-axle price system for means of production resulted in doubly strong twists, the distance between the two prices was pulled very wide, and a trend developed that showed this range becoming normalized, etc.

The above two aspects of this situation have a detrimental effect on price reform. If we do not promote price reform, advances in the reform of the whole economic system will be affected. From this we can see that attempts to avoid the difficult points of price reform are unrealistic. In order to deepen reforms and promote the establishment of new economic mechanisms we must actively promote price reforms.

How should we promote price reform? The theoretical community suggests the following several lines of thought.

The first is "Taking regulation as the key." The good thing about this idea is that the steps of reform are safe and reliable. You can do it methodically and proceed by

steps and reduce the amount of societal disruption. For the past few years we have taken this road, and it has actually been very effective. However, price regulation can only solve part of the problem. It would be very difficult for it to make the whole system function smoothly. This is especially true in the situation facing us where the range of price inflation is great and it is impossible to quickly reverse the trend, where changes in the different price ratio relationships are complicated, and it is even more difficult to achieve the goal of regulating and smoothing out the different commodity price ratios.

The second line of thought is "Taking release as the key." The main idea of this concept is releasing the prices of all kinds of products and allowing the supply demand relationship of the marketplace to determine price, finally resulting in a balanced supply and demand, balanced prices, a rapid systematization of the price system and therefore, appropriate for the direction of reform. The question is that to release "all in a group," we must consider the ability of society to bear the impact.

The third line of thought is "taking control as the key." This concept takes retrenchment as the key measure, using administrative strength to control price. But the end result might be a return to the old system and will therefore result in running up against the tide of reform.

The fourth is "comprehensive administration." This means following all the roads of regulation, release and control in a combined approach. I feel this is a workable approach. However, in following measures of a comprehensive administration, we should fulfill the following requirements:

- (1) The societal and economic disruption of reforms should be held to a minimum.
- (2) Reform measures should try to shorten the road towards realization of our goals.
- (3) Finally, prices should be basically stable, various commodity and labor prices should be basically smoothed out and the market mechanism should be basically completed.

The tendency for inflation of price total levels certainly has a detrimental side, but it also causes the elasticity of various types of commodity and labor prices to increase. Therefore, it also is advantageous for price reform. Here we must first resolve the problem of society's ability to accept price reform, and make people fully understand and support price reform. Therefore, no matter if we make use of the method of income growth coupled with price inflation or the method of living subsidies or floating wages, the principle should be to assure that, in a situation of inflated prices, the peoples' standard of living does not drop, and moreover, that it actually improves gradually as production develops.

To overcome the problem of society's capacity to accept price inflation we can employ the comprehensive measure of "regulate, release, control" to speed up the pace of price reform. So-called "regulate" simply means taking commodity and labor prices that are too high or too low and gradually making adjustments. The goal of regulation is not to achieve a smooth price ratio relationship. Rather it is to turn prices into strong economic levers, encouraging rational industrial structure and commodity structure, and gradually relaxing the contradictions in the supply-demand structure. At the same time we make up our minds to resolve the problems of the double axle price system.

"Release" should be according to the principles of maturing in one area, releasing in that area. Except for commodities and labor that are related to the national plan for people's livelihood and are in seriously short supply, prices can all be released, allowing for market adjustments.

Making use of the above "regulate" and "release" measures simultaneously, there will still be a heavy responsibility for "control," which must be strengthened. First, control must be strengthened over the range of increase for commodity price total levels, in the process of promoting price reform, taking commodity price inflation and controlling it to be within the range that society is able to accept. Moreover, we must immediately reduce the unstable factors. Secondly, we must institute control over commodity price regulation, deciding which prices should be regulated, when they should be regulated, how wide the range of adjustment should be, etc. These areas all need strengthened scientific demonstration in order to use appropriate measures. Third relates to the supply demand situation for release of commodities and labor, proceeding with forecasts of development trends, and taking appropriate measures for conditions of departmental and regional monopoly that might develop after release. Fourth relates to the segment of prices that temporarily cannot be regulated or released, or have a great influence on economic development, and employing subsidy assistance or tax limits as control measures and relaxing contradictions. Fifth is to strengthen control over labor price subsidies, making use of multiple varieties of subsidy methods depending on differences in location, trade, and all the different types of situations, thereby reducing the disruption to society. Sixth is to organize well the allocation and circulation of important commodities. Especially for necessities that are in great shortage, employing measures of allocation according to ration tickets, fixed quantity supply, etc., and while helping to increase supplies, also possibly relaxing some of the contradictions in supply and demand. Seventh is to work out the price legislation well, strengthening management of the market system and directing the healthy development of the market mechanism. Eighth is making use of price measures to strengthen management of the macroeconomy, encouraging the rational adjustment of the industrial structure and realization of economic development goals.

Since price reform is a very risky project, it must be divided into stages, with the key points handled with different measures in different stages.

First is the stage where commodity prices are unstable and the market mechanism is not fully complete. In this period "regulation" should occupy the primary place, price controls should be appropriately strengthened, adjusting the release measures should be actively stabilized, the laborers price subsidies should be resolved. Moreover, other coordinated aspects of reform should be instituted, thereby assuring that the reforms proceed in a systematic way.

The second stage is when the range of price inflation is reduced and where the market mechanism starts to develop. In this period, the supply-demand contradictions start to relax, concealed inflation gradually is absorbed, the economic environment begins to exhibit expansion, "release" is the key element of price reform, one more step is taken towards the growth of the market mechanism, the key element resulting from adjusted prices and adjusted industrial structure is gradually completed and linked with a macroeconomic regulation system, taking control as the key element.

The third stage shows the beginnings of prices becoming comparatively stable, the market mechanism gradually maturing, and the new economic system basically established.

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**JINGJI YANJIU Views Distribution, Income**  
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#### **I. Criterion To Assess the Fairness of Distribution of Income or Lack of it in the Commodity Economy**

##### **1. Income must be proportional to input.**

In the commodity economy, income can be called the reward for input. The criterion to assess whether the distribution of income is fair is to see whether a person's income is proportional to the quantity and quality of production factors he has put into production. Here "proportional" refers to 3 aspects. (a) He obtains the kind of reward for the kind of production factors he put in. (b) The amount of reward is decided by the amount of effective input. (c) The levels of reward are decided by the marginal-productivity of various production factors. In other words, it is the unification of responsibilities, rights, and benefits.

2. Since the categories of distribution influence the commodity economy, criteria of the commodity economy must be used to assess distribution of income.

After a few years of reform, we can no longer lump the personal incomes of the Chinese people together as "labor income." There have been increases in the peasants' own means of production, and individual economic undertakings and private industries and commerce in the urban areas. Therefore, asset incomes belonged to either state ownership or collective ownership before. Now they belong to multiple ownership, including ownership by some individuals. A similar change has occurred in income. In China, labor income is still the main form of personal income. However, apart from receiving labor income, the laborer also enjoys social insurance and social welfare. He also obtains interests and dividends from savings and through the purchase of bonds and shares. Therefore, in China now there are 5 sources of personal incomes, namely, assets, operation, labor, social security, and others. This is a new pattern of income distribution. In the language of the commodity economy, these 5 kinds of incomes are 5 kinds of reward for input. Labor income is the reward for one's labor put into production. Interest is the reward for capital input. Asset income is the reward for property input. Income from operation is more complex. It is composed of reward for the input of management skills and reward for risks. Income from social security is transformed from government incomes. Government incomes are taxes. In the commodity economy they are a reward for the government's contribution of labor service and public products to production. Therefore, the criterion to judge whether distribution of personal income is fair is whether income is proportional to input, i.e., whether responsibilities, rights, and benefits are unified. This principle actually embodies the principle of distribution according to labor. In the new pattern, distribution according to labor is a principle used to assess labor income.

3. The old distribution system of direct distribution among the state, the collective, and the individual must be abandoned.

In the traditional economy the criterion to judge whether distribution of income is fair is whether the interests of the state, the collective, and the individual are taken into equal consideration. The government is like a parent who, according to predetermined rations, distributes in the order of first handing over enough to the state, then saving enough for the collective, and finally, giving what is left to the individual. Such a model of distribution is based on a only crude concept, such as the large, the medium, and the small. There is no objective calculation to rely on. This is why we emphasize taking equal consideration of the three parties all the time but end up being unable to do so. If distribution of income goes on to follow this model, it can never be fair. In the previous stage of reform, methods like "sharing profits," "deduction from and retention of profits," and "linking

up with profits" were used in the distribution of income in town and country. They basically belong to the traditional model of income distribution. Therefore, many people were unhappy about the results of distribution. They thought they were at a disadvantage in the distribution and so irrationally compared and competed with each other. Therefore, to resolve the question of unfair distribution of income, the traditional concept of directly taking into equal consideration the interests of the state, the collective, and the individual as a criterion must first be abandoned. Instead, the criterion to assess income distribution should be a right proportion between income and input.

## II. An Analysis of Several Glaring Phenomena of Systemic Unfairness

4. Structural irrationality and systemic irrationality coexist, but the latter is dominant.

Commodity economy is an economy in which each party tries to obtain profit for itself from an exchange. Exchange is an effective form of implementing the principle of obtaining reward by putting in something. However, in commodity economy two factors affect the implementation of this principle. The first is the imbalance between the supply of and demand for products and production factors. The second is the ineffectiveness of the market mechanism. Imbalance between supply and demand often happens in commodity economy. When supply exceeds demand, the result of income distribution will be favorable to the demand side. When it is vice versa, the result will be favorable to the supply side. This is an important factor that affects income distribution in China at present. For example, an obvious reason for the prices of agricultural products and by-products to go up is that in recent years investment in agriculture has dropped, and so the shortage of agricultural products and by-products has resulted in a contradiction in income distribution between wage-earners (such as urban staff and workers) and sellers. The irrational income distribution caused by the imbalance between supply and demand is a structural irrationality. When the market mechanism is healthy, the degree of irrationality of income distribution is lesser as a healthy market mechanism can make the relationship between supply and demand rational. If it takes too long and costs too much to rationalize distribution with the balance function of the market alone, government overall economic policy based on scientific market forecast can be introduced to intervene. Irrational distribution of income caused by an unhealthy market mechanism is a systemic irrationality. Continued structural irrationality is caused by a defective market mechanism. If both structural irrationality and systemic irrationality exist, it is impossible to resolve structural irrationality without having resolved systemic irrationality. Therefore, if both exist, we must first make a serious effort to resolve systemic irrationality. In the irrational income distribution in China at present, there is both structural irrationality and systemic irrationality, and the latter is dominant.



5. Imperfect market regulation is the reason for the excessively high incomes of individual economic operators and private business owners.

The most conspicuous irrationality at present is the excessively high incomes of most individual economic operators and private business owners. It is normal for these people to receive slightly higher incomes than workers in state-run enterprises, because the income of state enterprise workers is only labor income, whereas incomes of these people comprise their labor income as well as operation income and asset income. Moreover, state-run enterprise workers still enjoy state social security and bear no risk, whereas individual economic operators and private business owners do not enjoy security and have to shoulder all the risks. Yet, after taking the above factors into consideration, these people's incomes are still too high. Part of the reason is structural. For example, they are usually involved in trades whose supply still has not met the demand, such as the third industry. And these trades were not developed under the traditional system. However, part of the reason is also systemic. For example, some people find loopholes in the dual-track price system and imperfect tax system and make a fortune by evading taxation. Another example is state-run enterprises and undertakings sell only to large buyers, hoard and speculate, and ask for sales commission, etc., so that they take advantage of opportunities to make an illegitimate fortune. Of these two factors, the systemic factor is obviously dominant, as most structural factors have their roots in the systemic factor. First, the system of state-run enterprises at present is still too rigid, transfer of assets is difficult. Second, even if assets can be transferred, individual economic operators and private enterprises cannot compete on a fair basis due to systemic reasons such as high tax rates. At present, many phenomena of large units eating up small units are due to this reason.

6. The reasons for the disproportionate incomes for mental versus manual labor are that wages determine the dual-track price system and that the labor market is not open.

The disproportionate incomes for mental labor versus manual labor is a generally recognized irrational phenomenon. There is a structural reason here, but the reason is mainly systemic. First, it is caused by the dual track adopted during the reform. As the dual-track system is implemented in the wage reform, the manual laborer's income is given flexibility to some extent. However, because it is not the right kind of flexibility, it is not flexible, but is instead chaotic. On the other hand, the incomes of most mental laborers are still under state control, and no comparison and competition for higher incomes is allowed. Second, as the labor market, especially the qualified personnel market, is not open, the higher value of the mental laborer has not been affirmed by a mechanism. Therefore, if the labor market is completely open, the mental laborer will be able to compete with the manual laborer in a fair environment.

Since China is short of qualified personnel, with an open labor market the disproportionate income of the mental laborer versus the manual laborer cannot continue for too long.

7. The reason why contractors obtain excessively high incomes is because the contract operation system lacks a mechanism to define the functions, risks, and income differential of contractors, and the party who grants the contract is the government, who is not responsible for the growth of asset value.

Since the introduction of contracted responsibility and tenancy to enterprises, what is a reasonable income level for contractors and tenants has been a tough question to deal with in income distribution. The contributions of contractors and tenants to production are mainly in the input of management skills. Meanwhile, they also shoulder some of the operational functions and share a small part of operation risks. Although the separation of ownership from operation has been practiced to a certain extent in contracting and tenancy, the two are not completely separated. Contractors and tenants accept the pre-established situation in which the amount of deposit of capital cannot be transferred, and the content and goals (rate of annual increase of profits) are fixed. The major decisions on operation have been made by the owner (the government) and the main risks fall on the party that provides the capital (the government). According to the principle of appropriate proportion between input and income, the incomes of contractors and tenants should be proportionate to the management labor they provide, the part of operation function that they are responsible for, and the small part of risks that they share. However, how to define management labor and workers' production labor? And how to define the proportion of contractors and tenants' operation function and risks in the entire operation functions and entire risks? Before the introduction of the market mechanism, such a definition of functions did not exist in the contract and tenancy systems. Therefore, in the distribution in the contract and tenancy systems at present, the old methods of distribution as used in the product economy, namely, the direct distribution among the state, the collective, and the individual, are still in force. The income for the contractor is actually a result of bargaining between officials. Defined in this way, the contractor's incomes must be set at an excessively high rate. This is because in the bargaining, the goal of the government as the party who grants the contract is only to guarantee revenue, not to maximize profits. It is not concerned about whether the contract costs are too high and whether enterprises' asset value grows. On the other hand, the contractor hopes the base figure will be as low as possible as the lower the base figure, the less the risks. Under the commodity economy, we must do the following to rationally differentiate the contributions. (1) Open up a healthy management personnel market and connect it with the labor market. (2) Open up and perfect an asset market (such as a stock market after organizing assets of the whole people into shares). In this way, asset value

will be accurately assessed and contractors and tenants' performance in operation and risks shouldered can be accurately assessed too. (3) The party that grants the contract must be a company's board of directors who see the growth of enterprise asset value as their own responsibility, not that of the government.

8. The main sources of irrational wage differential among state-run enterprises are the floating of the total amount of wages with profits, the disproportion between input and reward, and the inclination of enterprises' goals toward increasing employees' incomes.

Within ownership by the whole people, the wage differential is also extremely irrational among departments, trades, and enterprises. For example, the wages of drivers, cooks, or lathe operators who possess equivalent skills can vary by several times in different enterprises, trades, and departments. Therefore, the principle of equal pay for equal work in the society has been damaged. The source of this phenomenon which violates the law of commodity economy is also systemic. The main element of this source is the method of floating the total amount of wages with profits that was introduced to enterprises in the previous stage of reform. Profit is a result of operation. It is determined by various factors, such as technological conditions, asset value, quality of operation, market environment, etc. Often it has nothing to do with workers' labor quality. If workers' income floats with profit, there will inevitably be wage gaps between enterprises. Enterprises that give the same labor but obtain less income will certainly try to attract more investment, rashly put up more establishments, or mark up product prices or service charges so as to make more profits. If these means do not work, they will even risk using undesirable means to increase the actual incomes of their employees so as to compensate for the loss that resulted from irrational wage differential. The method of floating wage with profit is derived from the correct principle of linking wages with economic results. However, it has in effect distorted this principle. In commodity economy, linking wages to economic results actually means for every fen spent on wages, the economic results must be considered. It does not mean maintaining some simple function relationship between wages and profits. When wages float with profits, the goal of enterprise operation will drift away from the maximization of profits and toward increasing employee incomes. This will lead to soaring wage funds, soaring investment, and recurrent price rises. Inflation will in turn result from demand pull and cost push. The attempt to float wages with profits led to expanded demand and inflation both in Britain when it experimented "sharing the economy" and in Hungary which in effect practiced the floating of wages with profits in its reform. In commodity economy, wage is also a "price." Wage differential can only be determined by the labor market. It will become rational only with the mechanism of the state regulating the labor market and the labor market directing enterprises and laborers. After the method of floating wages with profits has been stopped and before the opening of the labor

market, the state can adopt the method of "floating an enterprise's average wage with labor productivity" to control the growth of an enterprise's wage funds. This is a method that stimulates supply and tries to rationalize wage differential as well as possibly excluding "non-labor factors" from wage differential.

9. The reason for irrational wage differential between regions is varying policies and violation of the principles of equal opportunity and fair competition necessary for the market mechanism. Reform experiment should be based on a market rather than an administrative zone as a unit.

The reason for income differential between regions is both structural and systemic. The structural reason is uneven economic development in different regions. However, the present income differential between regions is mainly due to the systemic reason. In concrete terms, it is caused by the central government issuing different policies to different regions. The central government issues more flexible and more favorable policies to some regions due to two reasons. First, it considers the needs of development strategy. Second, it carries out reform experiments. Therefore, in general issuing different policies is acceptable and wage differential between regions is inevitable. However, to avoid excessive differential and the phenomenon of developing one place at the cost of declining another, the central government's preferential policy must be formulated on the basis of not damaging the market mechanism. For example, if preference is given due to the call of development strategy, the methods of tax deduction and financial subsidy should be adopted. A different taxation system should not be introduced as it will lead to differences in taxation system, tax rate, and base figure for taxation. If equal opportunity and fair competition which are needed for a healthy market mechanism are upset, the region that does well will have to subsidize the one that does poorly. In the previous stage of reform, many regions were given flexibility and became wealthy at the cost of Shanghai's economic decline to some extent. This is a lesson for us. Social experiments are not the same as chemical experiments. They cannot be carried out in the laboratory and insulated from the outside world. They take place in the society and affect it. How to minimize the damage by experiments to their surroundings? One feasible method is not to use the administrative zone as a unit for an experiment, but instead use a relatively independent market as a unit. In so doing the integrity of a market will not be impaired. For example, the provinces of Guangdong and Hunan have historically formed a market for some agricultural products and by-products. If price reform is experimented on these agricultural products and by-products, the scope should be both Hunan and Guangdong, and not Guangdong alone, otherwise Hunan will be at a disadvantage. Another example is that the qualified personnel market is a national market. Therefore, mobility of qualified personnel should not be opened up in one region first, otherwise qualified personnel will be abnormally concentrated in the opened up region. The qualified personnel

market should be opened up in the sequence of one occupational category after another (e.g., management personnel, lawyers, medical doctors). Once an occupational category is opened up, the same system should apply to the same occupational category across the whole nation. The ordinary labor market is usually a local market. So one region can be the unit of experiment of its opening up. A traditional economic zone is a more appropriate site for a comprehensive experiment than an administrative zone (such as a city). Reform experiments that take place in fragmented regions with no attention paid to market integrity is the most important reason for irrational income differential between regions.

### III. The Roots of Systemic Unfairness in the Distribution of Income and Ways To Overcome Them

10. The causes of irrational income distribution at present differ from those before the reform, therefore the methods of freezing prices and wages cannot be used to resolve the problem.

The above analysis shows that the roots of irrational income distribution today differ from those in the traditional system before the reform. In fact the two sets of roots contrast each other. The irrationality before the reform resulted from prolonged price and wage freeze, whereas the irrationality today emerged in the process of adopting flexible measures for prices and wages. Therefore, not only will the methods of wage and price freeze be unable to resolve the problem today, they will even expand the scope of irrationality.

11. The present irrational income distribution also differs from that in genuine commodity economy, therefore macro-economic policies that nations practicing market economy usually adopt are not appropriate resolutions in our case either.

The present irrational income distribution differs in nature and source from the irrational income distribution that might appear in commodity economy with a perfect market mechanism. Therefore, the macro-economic policies that nations practicing the market economy usually adopt are not feasible for China either. Without a perfect market mechanism and a healthy local basis for economic operation, overall measures to regulate and control will not be effective.

12. The present irrational income distribution is rooted in an imperfect market mechanism, and part of the decision-making power over prices and wages have been prematurely delegated to enterprises and responsible departments of enterprises.

The present irrational income distribution, especially the systemic irrationality, is a result of prematurely delegating part of the decision-making power to enterprises and responsible departments of enterprises when the market mechanism is still imperfect. To resolve this kind of irrational income distribution, we must first re-think about the delegation of decision-making power in the previous stage of reform.

13. Under the conditions of commodity economy, if prices and wages are not directly determined by the market, they should be determined by the state according to the market situation. By no means should they be determined (or manipulated) by enterprises.

Under the conditions of commodity economy, usually if prices and wages are not directly determined by the market, they should be determined by the state according to the market situation. Only in this way can prices and wages become "parameters" in the large system of economic operation and provide a basis for enterprises to dispose their resources. Of course, in the commodity economy usually most prices and wages are directly determined by the market. Only in times of disaster, crisis, war, or chaotic market order will most prices and wages be determined by the state. On the question of determining prices, there is a wrong concept in China, i. e., that the market determination of prices (including wages) is the same as determination over prices by the enterprise (including the laborer). According to this view, it seems that letting the market determine the prices means delegating the decision-making power over prices to the enterprise. Actually the two are not the same. It is true that the enterprise is responsible for the operation. However, if the enterprise's decision is not too detached from the market criteria, it means that the enterprise in the final analysis accepts market prices and so the prices are actually determined by the market. If the enterprise can monopolize the market to a certain extent and can use its autonomy to manipulate market prices, then the prices are actually determined by the enterprise. Who determines the price is a big question in commodity economy that relates to whether a market mechanism functions and whether economic operation is stable. In commodity economy, a most normal state is of course when prices are determined by the market, for only in this state is economic operation most stable and most efficient. There is a major flaw in determination of prices by the state. It will make market regulation rigid and lower economic efficiency. However, it does not hinder the continued functioning of the market mechanism under state regulation since under these conditions prices are still a "parameter" in the system of economic operation and still can be a basis for the disposition of resources. Therefore, if state determination of prices is appropriately implemented and not for too long, it will not cause too much chaos to economic operation. Even if it causes some deviation in the industrial structure and distribution structure, the deviation can be corrected with the market mechanism. The worst that can happen in commodity economy is when prices are determined neither by the market nor by the state, but by the enterprise. The manipulation of prices by the enterprise means serious monopoly exists in the market, and no matter what caused the monopoly and in what form it appears, prices will no longer be a "parameter," but will only be a "variate." This will dampen the equilibrium function characteristic of the market mechanism and there will be no objective basis for disposition of

resources and income distribution. If this state becomes common and perpetuates, the entire economy will become inefficient and unstable. Therefore, if the goal is to equalize the income level and stabilize the economy, then if conditions for market determination of prices are not present, prices should be determined by the state. By no means should enterprises be allowed to determine (or manipulate) prices. On this question, the reforms in East European countries have provided enough lessons for us.

14. The premature delegation of decision-making power on prices and wages to enterprises when the market mechanism is still imperfect has resulted in "monopoly" of the market by enterprises. This is a major cause of economic chaos and unfair income distribution.

In the previous stage of reform, a large part of decision-making power over prices and wages were delegated to enterprises and responsible departments of enterprises when the market mechanism was still imperfect. This means in effect letting enterprises determine (or manipulate) the prices, not letting the market do so. This way of adopting flexibility has produced the same results as monopoly. For example, in the previous stage of reform, some enterprises manipulated prices and wages by making use of the monopoly or the administrative privilege in production, supply, and marketing that they had enjoyed in the traditional system. Some enterprises manipulated prices and wages by means of the autonomy to sell on their own or other kinds of autonomy granted by the state in the reform. Some enterprises even used their connections in the government to directly influence government departments and manipulate prices and wages with the administrative power of government departments. Such manipulation of prices and wages by enterprises and responsible departments of enterprises, like various kinds of monopoly that might appear in the market economy, are roots of recurrent price rises, irrational comparison and competition for high prices, and irrational income distribution. Nihon Keizai Shimbun has succinctly pointed out in an article that the cause of inflation in China is "the monopoly of the market by enterprises."

15. Reform should not be content with the kind of flexibility which lacks substance and is loosely defined. It should abolish the old order of product economy and establish the new order of commodity economy.

Re-thinking about the reform of the previous stage, we can arrive at this conclusion: in reform, loosely defined concepts alone, such as "adopting flexible measures," are not enough. In reform practice there are two possible kinds of "flexibility." One is simplistically delegating administrative power down in the absence of guarantee by a perfect market mechanism. This kind of "flexibility" is actually causing chaos, not reform. The other kind is flexibility based on a new order of commodity economy. Only this kind of flexibility can encourage and stimulate enterprises to increase product supply, raise the initiative to increase economic results, activate the

economy, and promote the rational disposition of resources and distribution of income. It does not stimulate enterprises to mark up prices and boost social demand. We should understand reform as abandoning the old order of product economy which handicaps the development of productive forces, and establishing a new order of commodity economy which liberates productive forces.

16. While the market lacks the ability to determine prices, the state should be responsible for short-term control of prices and wages. Reform priorities should be on reforming the mechanism of economic operation at the micro-level.

Balanced distribution of income is a basis or reference for rational distribution of income. Therefore, once we find out the kind of flexibility that suits the goals of reform, we will know the way to resolve the problem of systemic unfair distribution of income at present. The way is for the state to recall the decision-making power over prices and wages which has been inappropriately delegated to enterprises since the current market mechanism is still imperfect. This will check the recurrent price rises and irrational wage comparison and competition, prevent the problem of unfair income distribution from getting worse, and as much as possible resolve part of the problem of unfair income distribution which awaits urgent resolution with state intervention. For a period of time to come, reform should emphasize the reorganization of the mechanism of economic operation at the micro-level.

17. Wage and price control means letting the state determine wage criteria and product prices. This is a "strict" income policy used in the market economy. It is different from traditional "planned wages" and "planned pricing."

Wage and price control means, when the market is chaotic, the state determines and regulates the wage criteria (called "wage rate" in economics) of occupations and types of work so as to avoid letting enterprises manipulate wage and price levels. It is a "strict" income policy used in the market economy. Of course, state determination and regulation of wages and prices cannot completely rationalize wages and prices. Wage and price reform must ultimately be carried out by means of the market mechanism. This means "delegating" the decision-making power over wages and prices to the market. The function of state control of wages and prices is to prevent enterprises and responsible departments of enterprises from manipulating wages and prices and to avoid recurrent wage and price rises. This is extremely important to the state effort to overcome the present difficulty. At present the state finds itself in a twofold difficulty. On one hand, according to the needs of reform and development, some obviously irrational wages and prices must be regulated. On the other hand, due to irrational wage comparison and competition and recurrent price rises, even small-scale regulation of a handful of products is very risky, and the effect may not be good. This is because just when the income relationship has

changed after the regulation, it will quickly be offset by irrational wage comparison and competition and recurrent price rises. Irrational interest differential will recur or even enlarge. This twofold difficulty is chiefly caused by the power of enterprises and responsible departments of enterprises to manipulate wages and prices, which has in turn weakened the state's power to control. Therefore, if the state wishes to regulate some extremely irrational wages and prices, it must first introduce wage and price control. State control will not handicap the regulation of wages and prices. On the contrary, it will increase the state's freedom to regulate wages and prices. "Control" differs from traditional "planned wages" and "planned prices" because "control" is a market intervention. It is based on market information and serves the market. It is different from "planned wages" and "planned pricing" before the reform which had nothing to do with the market, or even excluded and hurt the market. Therefore, under "control" the progress of opening up the market can continue and it will be even smoother than it is now.

18. Reform of the mechanism of micro-economic operation is to establish a new order of market economy.

The reform of the micro-economic mechanism means to establish a new order of market economy. It has two core tasks. First, set aright the goal of enterprises so as to make asset value growth an impetus for enterprises. This is the central content of the reform of the mechanism of enterprise operation. Second, perfect the market system and market regulations. This is market reform. The central content of market reform is not what many people understand to be "rationalizing the prices." It is to knock down administrative obstacles, allow the free mobility of products and production factors, and to perfect the taxation system, legal system, and market organization. Only when market regulations are perfected and the market mechanism functions normally can there be a possibility for prices to be rationalized. Reform of enterprises and reform of the market are two tasks that must take place at the same time, for without properly-behaved enterprises, there is really no market, and without complete market regulations, enterprises will not behave properly. The problem of systemic unfairness in income distribution can be fundamentally resolved only when enterprise reform and market reform have basically been completed.

## FINANCE, BANKING

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[Text] When I was employed in Hong Kong, I had an opportunity to receive and contact Chinese delegations

visiting Hong Kong. Members of Chinese financial circles were very interested in discussing the "international financial center" issue, and some also believed that in the future Shanghai would be restored to, or develop into, a financial center of the Far East. After I returned to China, I discovered that there were quite a few people who held this view, including some leaders.

For Shanghai to be able to be regarded as a financial center of the Far East, or even go one step further and become an international financial center, is certainly a fine aspiration, worthy of striving to realize. However, it is also worthwhile to discuss whether Shanghai is capable to developing into an international financial center, or whether it is appropriate, or too early, to suggest at the present time that "Shanghai will become an international financial center," or "Shanghai will strive to become an international financial center," or "Shanghai has the qualifications for developing into a financial center of the Far East."

An international financial center has a specific meaning, and not every locality with a developed banking industry can be called an international financial center, nor can a multitude of financial centers exist at the same time in one region; they must be compared one with another. An international financial center cannot be self-proclaimed, it must be internationally recognized; it is formed naturally through objective economic development. New York, London, and Hong Kong are the world's three major financial centers; this is internationally recognized. In the Far East (the Asian-Pacific region), Hong Kong, Singapore, and Tokyo all have many qualifications for becoming financial centers. The Japanese government is currently making various efforts, and relaxing several restrictions, in striving to become a financial center of the Far East. However, at present it is Hong Kong, and not Singapore or Tokyo, which is acknowledged as the financial center of the Asian-Pacific region.

There are many similarities between Shanghai and Hong Kong with respect to financial and geographic conditions. Prior to liberation, Hong Kong's position was not yet equal to Shanghai's, but people within China are comparatively familiar with the circumstances of Hong Kong's development. Therefore, when discussing the issue of "whether Shanghai can become an international financial center," it is significant to compare it with Hong Kong.

Hong Kong had objective advantages which allowed it to develop into an international financial market in a relatively short time, but even more important were the subjective efforts, and the subjective and objective factors are closely interconnected:

### 1. Hong Kong and UK Authorities Took the Initiative in Adopting Measures To Raise Hong Kong's Financial Position.

Hong Kong and UK authorities did their utmost to raise Hong Kong's financial position, taking the initiative in

adopting a series of measures to open Hong Kong, and formulating various laws to provide encouragement and support for this.

The Hong Kong and UK authorities' resoluteness, agility, and skill at exploiting circumstances in dealing with financial issues is worthy of being used for reference. When Sino-U.S. relations were tense and Sino-UK relations were improving, Hong Kong and UK authorities, taking into account the fact that China would inevitably expand its international financial business through Hong Kong, quickly adopted a number of measures to open Hong Kong, and during the upheaval in China during the 1970's, Hong Kong and UK authorities, in order to attract the capital which had originally been prepared for investment in China, quickly implemented measures to open up Hong Kong, of which the main ones were as follows.

#### **A. Relaxing Foreign Exchange Control**

If foreign exchange is uncontrolled, capital can freely flow in and out; having an uncontrolled capital market and foreign exchange is regarded as a prerequisite for an international financial center.

Hong Kong is a free trade port and capital can freely flow in and out, but foreign exchange was originally controlled. The Hong Kong dollar was linked to the U.S. dollar, and the foreign exchange market was a narrow regional market. Control of foreign exchange also adversely affected the development of the capital market. In 1973, Hong Kong and UK authorities promptly and opportunely decided to do away with foreign exchange control, and in 1974 declared that the Hong Kong dollar would float freely. Because far eastern time zone is just right for filling in the gap with the New York and London markets, and Japan's foreign exchange control is tighter than Hong Kong's, the principal international foreign exchange brokers all went to Hong Kong to establish agencies. Currently, Hong Kong not only has a first foreign exchange market for Hong Kong dollars and other currencies (the Hong Kong Dollar Foreign Exchange Market), it also has a second foreign exchange market for transactions involving currencies other than the Hong Kong dollar (the Overseas U.S. Dollar Foreign Exchange Market). Because the facilities are good, information fast, and quotations accurate, even when the New York and London foreign exchange markets are open, it is fully possible to conclude a large volume of international foreign exchange transactions in the Hong Kong foreign exchange market according to London and New York quotations. The Hong Kong foreign exchange market can actually make transactions around the clock, and its nature has fundamentally changed, from regional to international.

With respect to this, disparity with China is very great. At present, China's foreign exchange is still strictly controlled. China has recently expanded the variety of its

foreign currency deposits, expanded the scope of retention, made flexible the regulation of foreign exchange transactions, and is currently conducting preliminary discussions on opening the foreign exchange market to a moderate degree, but these are still controlled relaxations; they are internally-oriented, and whether with regard to exchange price or the method of concluding transactions, the scale of business cannot be compared with that of Hong Kong, Tokyo, and Singapore.

#### **B. Relaxed Restrictions on the Establishment by Foreign Banks of Branches in Hong Kong**

In order to be regarded as an international financial center, a city must have financial institutions appropriate to it. The Hong Kong government's attitude toward foreign banks has a dual nature, because foreign banks have come to Hong Kong and set up branches primarily to make money and for other purposes. Using a relatively small amount of capital to absorb local deposits and obtaining capital on the inter-bank currency market is of no great help to Hong Kong and its local industry and commerce. Therefore, for a fairly long time, Hong Kong and UK authorities did not welcome foreign commercial banks, and even stopped issuing foreign banks licenses. However, if they wanted to raise Hong Kong's international financial position, it would not do not to allow world-famous banks to come to Hong Kong and set up branches. After comparing the alternatives, the Hong Kong government relaxed restrictions, allowed foreign commercial banks to come to Hong Kong and open branches, allowed them to absorb foreign currency deposits, allowed them to do their head banks' wholesale business in Hong Kong on behalf of the head banks, and boasted "we have no official restrictions on or discrimination against foreign banks." Currently, in addition to UK banks, there are 16 U.S. banks, 6 French banks, 6 West German banks, 5 Japanese banks, 5 Singapore banks; additionally, India, the Netherlands, Belgium, South Korea, the Philippines, Pakistan, Indonesia, and Thailand all have institutions; the Soviet Union and Eastern European countries all have financial institutions, but none of them are licensed banks. The above figures do not include such financial institutions as insurance companies, finance companies, securities firms and the like.

Contrasting China, the disparity with regard to this is also very wide. Allowing four overseas Chinese banks to open for business in Shanghai after liberation was for reasons of policy, and all business operation was restricted. After implementation of the policy of opening up to the outside world, there was an increase in foreign banks seeking to establish branches in China, and China is currently considering increasing the establishment of foreign commercial banks, and allowing them to expand their business somewhat. However, foreign banks' establishment of branches in China, just like their establishment of branches in Hong Kong, is for the purpose of making money and for other purposes, using their superiority to compete for import and export settlements of

exchange and documentary drafts, and they can also use capitalist methods to compete. In the initial stage of socialism, it is necessary to study whether state foreign exchange banks should be supported, and how to restrict and control foreign exchange banks. Whether other well-known banks want to open branches in China must be decided by them, based on their own needs and interests.

Hong Kong currently has over 80 foreign commercial banks and several hundred foreign financial institutions (not including Chinese banks and financial institutions). There is very little possibility that Shanghai can achieve this scale within a short time, and, more important, China will not allow foreign commercial banks to operate entirely in accordance with capitalist methods.

**C. Hong Kong Deregulated the Gold Market and, Additionally, Established a Silver Market, a Commodities Futures Market for Raw Cotton, Raw Sugar, and Raw Beans, and a Securities Futures Market.**

As a financial center, it is necessary to be able to accommodate a large volume of international capital, and to be able to freely put this capital into circulation. The circulation of financial capital inevitably brings speculation. As an international financial center, it is necessary to allow the existence of financial speculation.

In the 1970's, the flow of gold in and out of Hong Kong was controlled, and the gold market was limited to the region. In 1974 the authorities, in order to raise Hong Kong's financial position, abolished control of gold, and international gold traders surged into the Hong Kong market; later, an "international London gold market" was established, and the Hong Kong gold market became an important link in the international gold market. In 1980 a gold commodities futures market was established, which has become one of the world's four largest gold markets.

Hong Kong's securities market has become an international market early on, and in 1986 the Hong Kong futures exchange started hengsheng [1854 3932] index futures transactions, further increasing the scope offered by Hong Kong's stock market for the utilization of international short-term capital.

In addition to the Hong Kong gold commodities futures market, the Hong Kong commodities exchange also has a silver market and a future market for such commodities as raw cotton, raw sugar, and raw beans; it has a fairly sound futures transaction system.

Contrasting China, the disparity in this respect is even greater. Gold and silver are not allowed to be freely bought and sold, and this will be very hard to change in the future as well. A market has yet to be formed for stock trading, and furthermore, it is impossible to attract foreign capital to buy and sell Chinese stocks. Recently,

the Shanghai City Economic System Reform Office, based on a suggestions by Hong Kong businesses, studied the futures commodities market issue, and is now placing emphasis on a commodity economy. However, the supply of the important staple commodities cannot meet the demand for them, and the spot exchange still cannot satisfy demand using the commodity method, so it is very hard to conceive of the possibility of developing futures commodities transactions. Thus, from the standpoint of capital circulation and full utilization, Shanghai cannot attract international capital.

**2. Hong Kong's Political Situation Was Stable, It Was Able To Accommodate a Large Volume of International Capital, and Permitted Free Circulation.**

Not only is free circulation of capital permitted in Hong Kong, Hong Kong is also able to lend capital and extend credit throughout the world. The capital sources and uses of Hong Kong's capital market are not confined to Hong Kong, and these are also premised on stability of the political situation.

Southeast Asia has a large amount of idle capital, particularly the capital of overseas Chinese, and this capital includes both long-term and short-term capital. The local political situation there is unstable, and an outlet must be found, but China has by no means been stable for the past several decades, and moreover has had no place for short-term capital activity. Hong Kong's political situation is much more stable than that of its neighbors Indonesia, the Philippines, Thailand, and Malaysia, and it has a gold market, stock market, inter-bank lending and borrowing, and real estate to accommodate long-term and short-term capital. All of the necessary conditions currently exist for financing international capital through Hong Kong.

In recent years China's domestic political situation has been stable, but for a fairly long time it has seemed that it cannot conduct exchange of capital, and that its need of capital is unidirectional. Under such circumstances as these, international capital cannot stay in Shanghai, or be diffused through Shanghai. Hong Kong has actually become an observation post and financing base for foreign capital cooperation and investment in developing China's economy. Additionally, China regards Hong Kong as a financial market for China's expansion of its foreign financial relations, and the close financial relations between Hong Kong and China is a favorable factor which will still further spur Hong Kong to become an international financial center.

**3. Hong Kong Has Had Favorable Internal Conditions, Especially Financial Conditions.**

The banking industry is a third industry, and its development cannot be isolated. Financial development and economic development are inseparable. In the 1970's Hong Kong's economy took off, industry and commerce developed, and the above-mentioned favorable internal conditions developed in the construction industry, food



industry, and tourist industry, all of which facilitated attracting foreign capital to Hong Kong. The large numbers of tourists and the developed industry and commerce required corresponding financial institutions to serve them, which spurred the rapid development of the financial industry.

Hong Kong has branches of all of the major international banks, it has abundant capital, its many financial businesses are all world-class, it has a relatively high-level financial personnel contingent of 100,000 people, it has financial quotations for the whole world, it has the fastest and most up-to-date communications facilities, and can receive and utilize the world's newest financing methods and technology.

Comparing Shanghai, while it is not lacking in financial personnel, their caliber is not up to Hong Kong's. The majority are engaged in the traditional deposit exchange business, and even if they run foreign exchange banks, they are not yet proficient in new international financing methods, and as for computers and information, these are even more inferior. It is still very difficult for banks in various localities throughout China to get financial quotations in a timely manner from the world's principal financial centers, and still less is there any way to make transactions by telephone.

#### **4. Hong Kong's Tax Rate Is Low, and Lawful Tax Evasion Is Permitted.**

Hong Kong is a free port, and with the exception of four commodities, imports, exports, and transit are unrestricted, and don't require getting licenses. With the exception of a few commodities—cigarettes, alcoholic beverages, carbon, hydrogen, and oil—there is no tariff on imports and exports. In order to attract foreign capital, Hong Kong has consistently adopted a policy of low taxes, lower than the U.S., Japan, Singapore, and China. Hong Kong's law stipulates that profits tax need not be paid on profits coming from areas outside of Hong Kong, and that non-operational profits and losses shall not be regarded as before-tax profits. Profits and losses produced by international capital are relatively complex, and Hong Kong's legislation often cannot keep up with financial developments, so that many loopholes exist. As long as the laws remain unrevised, it is entirely possible to lawfully evade taxes. Hong Kong banks and financial institutions have many subsidiaries, many of which are for the purpose of taking advantage of loopholes in the law to evade taxes. All of these have helped Hong Kong become an international financial center.

Financial control is still relatively strict in China, and even when interest income is collected, a 10 percent interest tax must be paid.

In general, there are many similarities between Hong Kong and Shanghai, and there are many aspects of Hong Kong's financial development and growth which Shanghai can use as reference. However, there are many aspects of Hong Kong's development process which cannot be indiscriminately copied.

Additionally, the Soviet Union and several Eastern European socialist states are very advanced financially, but one never hears that Moscow or some other city is an international financial center, or that they are striving to become international financial centers, and judging from several measures which the Hong Kong government has taken the initiative in adopting, these measures could not be adopted in China's initial stage of socialism.

Shanghai currently has several foreign commercial banks, which are tentatively doing some borrowing and lending of funds and securities transactions, but in terms of their function, scale, and volume of business, this still cannot be termed a market, much less an international market. Control of foreign exchange has been relaxed somewhat, but the world's brokers cannot be attracted to Shanghai to make capital loans and foreign exchange transactions. Therefore, whether Shanghai should, or can, develop into an international financial center must be debated by experts. Under present circumstances, it is inappropriate to suggest that "Shanghai should be restored to being a financial center of the Far East," or that we should "create conditions, and strive to make Shanghai an international financial center"; if policymakers hold these views, it is liable to cause unnecessary confusion. However, the suggestions that "Shanghai will become an international financial center" is too alluring, and there are still many people interested in this; and I am afraid that my view is not easy to accept. However, I still sincerely recommend that this overly remote "fine aspiration" not be too readily brought up in international relations.

13387/9274

#### **Measures To Deal With Contractors Who Evade Taxes**

40060468 Beijing ZHONGGUO SHUIWU [CHINA'S TAXES] in Chinese No 7, 12 Jul 88 pp 9-10

[Article by Zhang Heng [1728 1854]: "Tax Cheating Widespread Among Individual Contractors Within Enterprises"]

[Text] As enterprise reform intensifies, many contracted systems of management responsibility have appeared among individual workers in enterprises. For example, a worker may work on contract while he keeps his job and remains on the payroll. Or he may be a contractor and keeps his job with no pay. In a third situation, both his job and pay may be suspended. As contractors, most individual workers pay taxes as required by law. In defiance of the law of the land, however, a minority have enriched themselves at the expense of the state and their enterprise by violating market management and evading taxes. For instance, some contractors have the enterprise do the books for them and the system seems to work well. In reality, they evade taxes by under-reporting incomes, inflating expenditures, and failing to report business sales and purchases. A couple runs a store selling steamed buns. After 2 and a half years in the contracting



business, they owed the state over 4,000 yuan in sales taxes, 50 percent of their total tax liabilities. Some contractors bargain hard to settle on the lowest contracting fee possible. The workers of a commercial company leased two trucks from the company and earned over 20,000 yuan in just 3 months. The workers of a supply and marketing cooperative ran its restaurant on contract and raked in more than 19,000 yuan in a short 11 months. However, they fell badly behind with the payment of 4,000 yuan in contracting fees. In most cases, the payment of contracting fees by individual contractors is collective; it is not entered in the books. Nor are all receipts on incomes and expenses kept. Individual contractors exploit the loopholes in lax management and make a fortune by cutting back on quantity and quality and by avoiding paying taxes. Three years after they contracted to operate a beef noodle store, a couple spent over 20,000 yuan to build a house which serves as a store in front and a residence at the back. There was much discussion among the public about this.

In my opinion, differences in understanding, lapses in supervision, and laxity in management to a large extent account for the problems mentioned above.

1. Managerial departments differ in their understanding of the economic nature of contractors and have become lax in their management. Some departments determine economic nature using the retention of jobs without pay as a criterion, others the ownership of means of production. Yet others deem it unnecessary to determine the economic nature of contractors because fees are paid collectively. Differences in understanding have led to confusion in day-to-day work in the issue of licenses, the use of certificates, and the payment of taxes. Exploiting this situation, a handful of contractors have been evading taxes flagrantly.

2. Contracting agreements are not legally enforceable, undermining the principle that all three parties be taken into account. A considerable number of contracting agreements do not include all the necessary items, are not detailed enough, and fail to delineate responsibilities. They were not drawn up under the supervision of the departments in charge of enterprises or validated by them. No copies of the agreements were sent to the industry or commerce department or tax department for review and record. Nor were they notarized by the notary authorities. As a result, some agreements are violated at will. Some people simply refuse to pay contracting fees. Others pocket the taxes they are required to pay.

3. The idea of paying taxes is not well-established. Consequently, people pay less in taxes than what they owe the government. Many contracts do not specify clearly which party is liable for taxes or include a clear tax calculation method. Some contractors assume that under collective contracting, taxes are the responsibility of their enterprise. Some contracting units believe that

taxes are included in the contracting fee and that contractors are not liable for paying additional taxes. Some deliberately fail to enter the transaction in the books so that their tax payments amount to less than half of the amount that is legally due.

Zeroing in on these problems, we must fully enforce the law, correctly apply effective tax collection and management methods, and rely on other functional departments and social forces to make tax collection and management a success in the wake of individual contracting.

#### 1. Tighten up tax registration and the issue of licenses.

a. When an enterprise proposes to contract out part of its operations or business to its employees or through bidding open to outsiders, it must report to the tax department in charge in writing in a timely fashion for its reference.

b. The department in charge of the enterprise concerned should take part in and witness the signing of the contractual agreement between the enterprise and the contractor. After it is signed, the contract should be sent to the industry and commerce department and tax department for examination and approval. A formal contract should be sent to the notary authorities for notarization.

c. When an individual employee of an enterprise goes into contracting (with his own capital), he becomes a taxpayer and leads to a change in the delegation of managerial authority within the enterprise. Within 30 days after obtaining his business license, a contractor must apply for registration to the tax department in charge by producing the tax registration report, the contracting agreement, business license, and other relevant documents. After examination and verification, the contractor will be registered and issued a tax registration certificate.

#### 2. Tighten up accounts management.

a. Except for subcontractors, labor export contractors, and others who have been exempted from the requirement to keep accounts or granted a deferment, all contractors shall establish an accounting system without exception as follows: 1) If the operational assets of the contractor belong to the enterprise, they should be entered in the accounts of the enterprise; 2) If the operational assets of the contractor are leased from the enterprise for a fee, they should be entered in the accounts of the enterprise; 3) If the assets of the contractor belong to himself and if the contractor has monthly sales exceeding 2,000 yuan (or 500 yuan in the case of a contractor who offers services), the contractor must set up an accounting system; 4) If the contractor goes into the contracting business with his own capital, forms a partnership, or hires workers to run his business, he must set up an accounting system.

If a contractor needs to hire a professional accountant to set up an accounting system, he must first seek approval from the tax department in charge. Each year the tax department in charge must overhaul accounting functions such as the establishment of accounts, entering of accounts, and final accounts and provide training.

b. Invoice management. Based on the economic nature specified in the business license issued by the industry and commerce department, the tax department in charge should issue different kinds of invoices to replace old invoices upon the production of the "invoice purchase certificate." Subcontractors and labor export contractors may make out an invoice by producing the relevant proof at designated tax collection offices.

3. Tighten up tax reporting and tax collection. An individual contractor who is required to pay taxes should file a truthful tax return with the tax department in charge within the time period set by the tax authorities. Different tax collection methods should be devised for different taxpayers, depending on their circumstances. When a contractor's accounts are established and kept by his enterprise, it should be the responsibility of the enterprise to file a tax return. The tax department can check the books and collect taxes. When an enterprise does the accounting for a contractor, it should file a tax return and pay taxes for the contractor. When the contractor sets up and does his own accounting, when his standard of management is fairly high, when accounts are kept accurately in a timely way, and when taxes are paid in full, then account examination and verification will be combined. All other contractors should be required to pay taxes of a "set amount or at a set rate." Subcontractors who have made a profit should be taxed based on provisional sales. Contractors in labor export should pay personal income adjustment taxes.

4. Violators should be rigorously dealt with. The State Council stresses in its "Decision on Enforcing Tax Laws and Strengthening Tax Collection," "In experimenting with various kinds of economic responsibility systems, including contracting and leasing, all localities should uphold the principle of paying taxes in accordance with the law." Operating on this principle, we must implement the following measures rigorously to stamp out tax evasion.

a. recover unpaid taxes. The tax department in charge should take the lead in convening mobilization meetings on self-investigation and the payment of overdue taxes by individual contractors. The meetings, to be attended by industry and commerce departments, departments in charge of enterprises, enterprises, and associations of individual contractors, should encourage individual contractors who have profited themselves by exploiting loopholes in tax collection to pay evaded taxes by a set period. Those who refuse to do so should be dealt with as tax evaders and tax resisters.

b. The law must be enforced strictly. On the basis of self-investigation and payment of overdue taxes, the tax department in charge should draw up "proposals on tax collection and management with reference to individual worker contractors within enterprises" and enforce them strictly. In the future, all violations should be dealt with sternly in accordance with relevant provisions in the "Tax Collection and Management Regulations." In addition, fines should be imposed on any one of the following types of violators, depending on the merits of the case:

1) when an enterprise allows an individual worker to go into contracting with his own capital and assume responsibility for his profits and losses, and fails to report the changes in writing to the tax department in charge within 30 days; 2) when an enterprise gives up the management of an individual contractor and even supports his tax evasion activities; 3) when an individual contractor fails to set up an accounting system within the time period set by the tax department in charge and still refuses to do so after being educated.

Only by handling the violators strictly can we deny economic benefits to individual contractors who flout the law of the land and evade paying taxes to the state. Only then can we really enforce the laws and ensure that national economic interests and the interests of legitimate operators are not infringed upon.

12581

## SMALL-SCALE ENTERPRISES

### Operational Problems in Collective Commercial Enterprises

40060479 Xining QINGHAI JINGJI BAO in Chinese  
16 Jun 88 p 2

[Article by Xue Zhongyan 5641 6850 6056: "Problems Existing in the Operation and Management of Collective Commercial Enterprises, and Responses to These Problems"]

[Text] According to a survey, conducted by the Qinghai Industrial and Commercial Bank, of 22 collective commercial enterprises, the following are the enterprises' main problems with respect to operation and management and fund utilization:

1. There is a serious overstocking of problem commodities. Problem commodities of the 22 collective commercial enterprises amount to 1,067,000 yuan, accounting for 18.57 percent of the total amount of commodities in stock; the problem commodities of some enterprises account for as much as 60 percent of commodities in stock. The cause of this is ineffective commodity information and unchecked stocking of commodities. If the enterprises try to deal with this by cutting prices, the loss from price cuts is hard to absorb, causing problem commodities to accumulate more and more.

2. There is a serious shortage of working capital in the hands of the enterprises, and the enterprises lack self-development capability. The total amount of working capital in the hands of the 22 enterprises is 2,876,000 yuan, accounting for 27.7 percent of the total amount of working capital; of these enterprises, six—or 27 percent of the enterprises surveyed—have achieved the stipulated ratio of 60 percent self-owned working capital. The enterprises rely on bank loans for almost all the capital needed for enterprise operation.

3. A large percentage of capital is used to settle accounts, and capital turnover is slow. The 22 enterprises used 2,812,000 yuan of their capital to settle accounts, accounting for 27.1 percent of the total amount of working capital used. A single turnover of the total amount of working capital takes 171 days; for one of the enterprises, a single capital turnover requires 271.8 days. In another enterprise, a single account receivable accounts for 63.4 percent of the total working capital used, while in still another enterprise, the account receivable at the end of 1987 had increased 5.8 times over what it had been at the beginning of the year.

4. Losses have increased, and there is no source from which to make good on them. Of the 22 enterprises, at the end of 1986 six had incurred losses, amounting to 240,100 yuan; by the end of 1987, the number of enterprises incurring losses had increased to 12, a 100 percent increase. These losses are not only hard for the enterprises to absorb, there is no source from which to make good on them. This has taken up more than its share of bank loans.

5. Accounting is inaccurate, with false profits and real losses. A certain enterprise incurred losses of 155,600 yuan at the end of fiscal year 1986, and also had unamortized expenses on account of 120,600 yuan. Another enterprise had profits of 190,300 yuan in fiscal year 1987, but undisposed liquid asset losses on account amounted to 64,500 yuan.

6. Income distribution is not entirely proper. Some enterprises use all of the profits realized the previous year for awards and welfare funds, neither replenishing their own working capital nor using funds taken from their accumulation fund, public welfare fund and the like, and the enterprises cannot develop their capability for expanding operation.

7. There are many overdue loans, and returns on use are poor, adversely affecting the turnover of credit funds. The working capital loan balance of the 22 enterprises at the end of 1987 was 3,842,000 yuan, of which 1,186,000 yuan, or 30.9 percent of the loan balance, consisted of overdue loans. Problem commodities, losses on account, incurred losses and the like accounted for 1,622,000 yuan of the loans, making up 42.2 percent of the total loan amount. Some loans constitute risk loans, and are difficult to collect.

8. The financial system is inadequately sound, and management is rather confused. In some enterprises (especially small enterprises) many of the financial personnel have received no specialized training, and their quality is rather poor. In some enterprises, the same person doubles as both accountant and cashier, and management of accounts becomes confused, allowing unscrupulous people to take advantage of loopholes; some enterprises do not send financial report forms to banks at which they open accounts, or do not send them on time, making it very difficult for the banks to administer loans properly.

9. Non-operating outlay is fairly large, exceeding the enterprises' ability to bear it. For example, one old collective commercial enterprise which currently has two workers has to pay the wages, medical expenses and the like of 15 retired workers and staff members, for which the annual outlay is nearly 10,000 yuan; however, the enterprise's annual enterprise operating fund is only 4,000 yuan, so that the enterprise's outlay exceeds what it is capable of bearing; especially for some old enterprises, the burden is becoming increasingly heavy.

We believe that, in view of the above problems, we should adopt the following measures in order to better support and promote the development of Qinghai's collective commercial enterprises:

1. Intensify reform of the enterprise operation mechanism, and actively carry out and perfect enterprise contract hiring operations. Enterprises, with the cooperation of the relevant leading departments at the central level, tax and banking units and the like, must implement contract hiring operations as quickly as possible, and must also give attention to studying the enterprises' actual bearing capacity; implement property checks, and take steps to ascertain creditors' rights and debts and deal with loss of assets; prevent the false phenomenon of short-term behavior; and perfect hiring contracts, including sales income, profit, distribution, and compensatory financing. Enterprises which are frequently on the verge of bankruptcy can adopt such operational approaches as auctioning and enterprise annexation. Banks should actively assist the contract hiring enterprises in putting their property in order and ascertaining debits and credits, as well as facilitate opening and settling accounts and give appropriate support with regard to loans, in order to promote the smooth development of contract hiring operations.

2. Improve information research and make market forecasts. Keep apprised of changes in the market in a timely manner, and strictly stock good commodities, in small quantities and a wide variety, with frequent stocking and quick sales, and raise the optimum rate of sales. Banks should actively bring into play the superiority of their wide, effective, and rapid information, and provide information in a timely manner to support enterprise development.

3. Tap the potential of materials and capital, reduce improper use of capital, and speed up capital turnover. Someone must be specially appointed to actively undertake receivership. Loans paid in advance and loans receivable, with regard to overstocked problem commodities, should actively open new sales markets or cut prices by stages and in groups. Losses from price cuts shall in principle be absorbed within the year; a very few can be allowed 2 or 3 years to be absorbed.

In order to resolve the problem of the difficulty of absorbing losses from price cuts of problem commodities, a 5-10 percent price cut reserve fund should be drawn from the total amount of commodity purchases, and the unused portion of the reserve fund drawn within the year should be allowed to be carried forward into the next year and used, without being washed back at the end of the year. Banks must utilize their characteristic feature of having a multitude of points and a broad area to help enterprises stimulate materials and capital and reduce improper use of capital. Banks must also vigorously provide publicity, and help enterprises develop new businesses, such as commercial acceptance business, in order to speed up capital turnover.

4. Perform compensatory financing, and improve enterprise operating capacity and risk-bearing capacity. Enterprises should organize and launch fund-raising by staff and workers; relevant leading departments at the central level can assess the situation and lend enterprises a portion of the working capital, in the form of reimbursable loans; and establish a sound working capital supplementation system, annually supplementing 10-15 percent of the working capital in the hands of the enterprise from profits retained after taxes, according to the percentage accounted for by the enterprise's own capital. Also, rationally distribute other funds, and deal correctly with the relationship between accumulation and consumption. Focus upon distribution of production development funds.

5. Strengthen loan control. In order to prevent the occurrence of risky loans and loans which result in bad debt, it is necessary to convert loan credit guarantees to economic guarantees and mortgages, and also to gradually make a transition to mortgage loans, guaranteeing the safety of loans, and preventing and reducing loan risk.

6. Concerned departments, especially relevant leading departments of enterprise at the central level, should attach great importance to collective commerce, and adopt effective measures to promote its healthy development. They must first become thoroughly familiar with the basic conditions of enterprise, supervise the direction of operation, aid operational management, and support operational activity. Second, they must help enterprises resolve the problem of overburdening, focusing on expenditure for wages and welfare for retired personnel. Third, in a planned way, by stages and in groups, train managers (including financial personnel),

raising the level of operational management and professional skill. Fourth, the operational autonomy of enterprises must be further expanded, allowing collective commercial enterprises to truly become enterprises which operate autonomously, seek their own equilibrium, bear their own risks, and develop themselves.

13387/6091

#### **Article Examines Private Economy's Features, Development Trend**

40060477 Beijing JINGJI CANKAO in Chinese  
7 Jul 88 p 4

[Article by Xu Shaoyi 1776 4801 5030 and Bai Zhenshan 4101 2182 1472: "Analysis of Private Economy's Features and Development Trend"]

[Text] Private economy under socialist conditions is both related to wage labor and is interconnected with public ownership economy, which occupies the dominant position, and thus private economy is enormously influenced by public ownership economy. Its features are as follows:

#### **The Dependent Nature of Enterprise's Existence**

First, in general, private economy can develop only on the premise that public ownership occupies the dominant position, and only "to a certain extent" and "within a certain range"; it can exist only as a necessary supplement to socialist public ownership, and cannot and should not develop to the extent of occupying the dominant position. In 1987, the nationwide output value for private economy accounted for less than 1 percent of the gross value of industrial output. Second, in the great socialist market, private economy cannot help being restricted by the functions of macroeconomic regulation. Among the private enterprises we have studied, there is hardly one which does not use, or has not used, state loans. Among these, some depend on loans to build themselves up; some depend on loans to maintain their production and operations. If the state stopped loan support, it would become impossible for many private enterprises to continue in operation. Third, China's land system stipulates that private enterprises can be based only on publicly-owned land, and in the case of some enterprises, even their factory buildings are called "public".

#### **Identical Interests of Management and Labor**

Even though private economy is related to wage labor, it exists only "within the limits stipulated by law", and management and labor can only have a relationship of equality and mutual interests. Politically, all are citizens of the state, and there is no relationship of oppressor and oppressed; with regard to income distribution, a certain degree of "exploitation" exists, namely, the proprietor of the enterprise has a certain amount of not entirely proper "non-labor income", but this is somewhat different from

the exploitation of the proletariat by the bourgeoisie in capitalist society. Within private enterprises, there is a fairly wide income disparity between the proprietor of the enterprise and the workers, ranging from several hundred percent or over 1000 percent to several thousand percent. We believe that we should acknowledge the propriety of this sort of disparity. The entrepreneur's managerial activities are also a form of labor, and are, moreover, a form of complex labor; complex labor is compounded simple labor, so naturally the enterprises proprietor's income should be several times that of staff workers. (Editor's comment: Article 36 of the "People's Republic of China Provisional Regulations Concerning Private Enterprise" stipulates: "The wages of the factory director (manager or chairman of the board) may be set at an amount within ten times the average wage of the factory's staff and workers." The enterprise proprietor's income includes wage income and after-tax profit income, and he must, in accordance with law, pay a personal income regulatory tax.)

#### **Flexibility of Production and Operations**

The proprietors of private enterprises have complete authority over the enterprise; they make the decisions by themselves, run things on their own, assume sole responsibility for profits and losses, practice self-accumulation and self-development, and display a high degree of flexibility at each link of production and operations. The proprietors of private enterprises hold the power in their own hands, and also have no "mothers-in-law". Therefore, decision-making is very seldom irresolute and hesitant, and work is not done sloppily—what they say, gets done. Once they have made a decision, they go all out, make careful plans, and pay attention to beneficial results; teams are keen-witted and capable, and managers are few. These are features which private enterprises have in common. Until now, some private enterprises have still maintained the "husband and wife factory" or the "sister store" model of the early stage of factory establishment. In order to speed up capital turnover, and receive higher economic returns, they adapt to the market, and the prices float freely. When sales are good, prices are duly raised, while if poor sales are encountered, prices are promptly lowered, to prevent goods from "sleeping" in the warehouse, and to reduce the amount of working capital used. However, it must be noted that the enterprise proprietor's flexibility with regard to production and operations has also brought a certain amount of corrosiveness to private enterprise operational activities. Some operate unlawfully, manufacturing fake commodities; some resort to bribery and gift-giving, and try to establish relationships, to get in through the back door; some evade taxes; some drive up prices and monopolize the market; some do shoddy work and use inferior materials, manufacture in a rough and slipshod way, and so forth.

The development of private economy not only demonstrates its uniqueness more clearly, but also, at the same time, has a certain regularity, and thus a distinct development trend has emerged.

#### **The Elements of Private Economy Grow Increasingly Complex**

As enterprises develop, the economic elements within private economy tend to grow increasingly complex. Some enterprises are operated jointly with collectives, some absorb state-owned factories and mines and become shareholders, some cooperate with the foreign trade sector, while still others attract foreign capital, so that many enterprises emerge which are "neither fish nor fowl". Some enterprises among them have followed the course from individual sole management to cooperative joint management, and subsequently to joint shareholding. The increasing complexity of the elements of private economy reflects private economy's historical transitional nature and the plasticity of the ownership system.

#### **Scale Management Becomes Increasingly Rational**

Seeking an appropriate scale is a widespread phenomenon in private enterprises. The constant intensification of market competition, and the law that the excellent are victorious and the inferior get weeded out, make enterprise proprietors aware of the risk of bankruptcy or takeover if the enterprise is run badly, and force them to soberly consider and rationally plan their own enterprises' scale, giving rise to the trend of constant improvement of technology and equipment, management level, quality of labor, product quality, and economic returns.

#### **Focus of Attention on the Separation of Two Powers**

Symptoms of a trend toward the separation of "two powers", namely, ownership and management, have recently emerged in private enterprise. However, under ordinary circumstances, enterprise owners still participate to a greater or lesser degree in some management activities; they still do not dare "release their hold".

In private enterprises under socialist conditions, the enterprise proprietor was originally supposed to have the dual status of "enterprise proprietor" and "manager", but after separation of the two powers, the enterprise proprietor's "manager" status naturally disappears, and he also thereby loses his status as laborer, and becomes a "do-nothing manager" divorced from production and operation, who sits and eats up the profits. This merits close attention and study.

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### **FOREIGN TRADE, INVESTMENT**

#### **Commentary on Value of Flexible Trade Policy**

40060439c Fuzhou FUJIAN RIBAO in Chinese  
20 Jun 88 p 1

[Commentator's Article: "Tailor Guidance; Advance in Uneven but Continuous Fashion"]

[Text] How can we better implement the "11 measures" approved in principle by the State Council, and expedite development of an export-oriented economy in Fujian?

The Eighth Plenum of the Fourth (Expanded) Provincial Party Committee proposed important guiding ideology and an approach to the problem; that is, to tailor guidance, and advance in uneven but continuous fashion.

Tailoring guidance and advancing in steps requires us to take into account dissimilar conditions in the various regions and cities of the province, adopt different guiding plans and approaches, and avoid acting solely out of subjective concerns and enforcing "a standard approach", "arbitrary uniformity" and "standardization." This is an effective and proven approach, and accords with the current uneven commodity economy development in the province, and objective law governing development of such an economy. We must pay particular attention to this point in effecting the strategy of coastal development. Fujian is a coastal province, but itself is comprised of both mountain and coastal areas, and commodity economy development has been uneven. The coastal area has already seen the emergence of multilevel, multidirectional, pluralistic development schemes such as the special economic zone, coastal development city, economic and technology development zone, and the "golden triangle" economic development zone; moreover, these advances are gradually being promoted in the interior region.

The reason for tailoring guidance and advancing in steplike fashion is to bring major efforts to bear on broad-scale development of the coastal area, as well as to give attention to linking the coastal and mountain areas. This approach suggests differing requirements, mutual support and mutual advance in accordance with the differing degrees of commodity economy development in the various areas. As the "main attack force" for developing an export-oriented economy, the Xiamen Special Economic Zone, Fuzhou Development City, and the 32 open counties, cities, and districts located for the most part in the southern Fujian triangle should function as the vanguard of reform and opening to the outside, and their role should be to: 1. take the initiative in production, and in particular make sure their annual rate of increase in exported-generated foreign exchange is far above the province-wide average; 2. set an example for comprehensive reform by initially advancing each reform measure to provide experience for the province as a whole; 3. initiate a new economic relationship between the coastal area and the interior so they both develop in unison. Activities in the coastal districts, cities and counties should be geared to these three functions; the effectiveness of these activities will be determined by how large a role they play. In the mountain areas to the interior, we must organize a "relay function" to support the "main attack force." The "11 measures" the State Council has approved in principle are applicable to both the coastal and mountain areas. Activities in the prefectures and counties of the mountain areas must proceed from actual conditions, centering on the main requirements for developing an export-oriented economy for the province as a whole. Given a

strapped agricultural, forestry, and especially grain, production situation, we must implement a development policy of joint management and mutual benefit regarding the mountain and coastal areas, and actively develop a multilevel, omnidirectional open economy in the mountain area. What this means is effecting a policy of greater opening up of the mountain areas and expediting the development of a commodity economy there. The poor districts also must engage in developmental production by utilizing their own natural resources and labor power, and by cooperating and conducting operations jointly with the coastal area. They must escape from poverty and become well off by developing a commodity economy. The coastal area, with the help of the interior hinterland, can increase its stamina and develop more rapidly; conversely, a flourishing coastal area economy can play a "radiating" role with respect to the hinterland, and spur on development of the mountain area economy. With such an approach, the province's economy naturally can develop from south to north and from the coastal to the mountain area, and gradually become more "export-oriented."

Tailored guidance and uneven but continuous advance are not only applicable for guiding activities for the province as a whole, they should apply to individual districts as well. For example, in terms of overall requirements, all the 32 open counties, cities and districts located mainly in the south Fujian triangle must boldly open to the outside world, attract foreign capital, devote major efforts to developing the "three forms of import processing, and compensation trade," the "three kinds of partially or wholly foreign-owned enterprises," and foreign exchange-generating township enterprises and agriculture, gradually form an integrated trade-industry-agriculture setup, capitalize on the strengths of the region, and take an important step toward developing an export-oriented economy. But we should realize that conditions in the various counties, cities and districts are not the same, and therefore the focus of activity, main direction of attack, and projects undertaken should be different. For instance, Dongsan County must concentrate its energies on developing exchange-generating agricultural experimentation areas and actively expand trade with Taiwan. Quanzhou city must focus its energies on attracting capital from Taiwan and abroad, set up industrial parks, develop the "three forms of import processing, and compensation trade" and exchange-generating township enterprises, etc. We also must tailor guidance for the various townships, towns and villages in a particular county, city or district, capitalize on their strengths and avert their shortcomings, focus on the key points, initiate efforts across the board, and promote economic development in the area.

Tailoring guidance and advancing in steplike fashion presupposes clearly defined "categories," which requires in-depth investigation and research to clearly determine the economic development situation of a given area, its latent strengths and development direction, and its place in the overall strategy of coastal development. After that,

we must determine the "coordinates," propose different requirements to satisfy varying situations, and take full advantage of the respective strengths and functions to make the appropriate contributions. In order to achieve this, we must be resolute in improving our work style and methods, revise the call to "standardize," overcome the simplistic "arbitrary uniformity" approach, suit measures to local conditions, work in a creative manner, make sure the export-oriented economy for the province as a whole continues to advance on several levels in steplike fashion, and speed up the pace of development.

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### **Expanding Country's Clothing Export Market**

40060448 Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 6, 27 Jun 88 pp 4-9

[Article by Wang Ronghe 3076 2837 7729 and Jiang Chenglong 3068 2052 7895: "On the Opportunity and Strategy For Developing China's Clothing Export Market"]

[Text] Ever since the 1960's, almost all the underdeveloped nations and regions have been concentrating on the development of their garment industries, and they have been very successful. For example, Hong Kong, Taiwan, and South Korea are among the world's top clothing exporters. In Hong Kong, especially, 33 percent of the industrial labor force are employed in the garment industry which accounts for 35 percent of the GNP. It ranks second among all suppliers to the U.S. retail clothing market. At present, China's garment export is only one-fifth of Hong Kong's, one-fourth of South Korea's, and one-third of Taiwan's export volume.

Neither Hong Kong nor Taiwan nor South Korea has a rich supply of natural resources for textile goods production. How do we explain their vigorous garment export trade and China's backward clothing export industry? It is indeed a puzzle.

### **The International Clothing Market's Law of "Natural Flow and Reversal"**

How did the garment industries of the many underdeveloped nations and regions gain momentum at the same time? How did they manage to capture the critical world market? The causes can be traced to a profound, objective, and natural source, and it was this source which gave rise to the opportunity which the underdeveloped nations and regions seized and China missed.

In order to understand, theoretically and objectively, how the underdeveloped nations and regions captured the world garment market, we must first discuss the result of our study of the passage of commodity markets. This will help us trace the roots to how the garment industries of the underdeveloped nations and regions

took off and captured the world market, and it will also provide the theoretical basis for why China's garment industry failed to take off, and how we can deal with the situation.

In the life cycle of every commodity, from the time it enters the market, to the time of its maturity, its market saturation, and its final decline and elimination, its market may shift from one region to another region because of changes in the quality and quantity of consumer demands, or because of changes in the relative strength of the competitors, or because of improvement or deterioration in the operators' production and sales conditions, and because of modifications in the industrial structure of some countries or regions. As a result, it is not unusual to find that during the market life cycle of a commodity, the passage from one market to another, or to several others, market is a locus of what we call the commodity market passage locus. The locus differs with different commodities and different markets, and it also has a regular pattern.

A simple example is the television. Black and white TV were produced by enterprises in the well-developed European and American countries, and they first appeared in the advanced markets in those countries. As the black and white TV began to saturate the market, color TV began to appear, and the well-developed countries had to change their competitive marketing strategies. First, they shifted the sales target of the black and white TV to the mid- and lower-level Second and Third World markets, and eventually, they discontinued production of black and white TV and only make color TV. Interestingly, there is still some market demand for black and white T.V. in the well-developed nations, and they need the Second and Third World countries and regions to supply them. This is exactly the time for the underdeveloped nations' black and white television industry, originally imported from the well-developed nations, to seize the advanced market of the well-developed nations. Shanghai and Hebei's 12-inch black and white television sets have penetrated the U.S. market. Reportedly, these low-cost television sets are mainly used in research laboratories, in schools, and by children. If we examine the process of how the black and white television market has shifted, we will discover that its locus starts in the market of the high-level region and shifts to the mid-level region and to the low-level region and moves back to the high- and mid-level regions. Because this locus characteristically traces out a passage from the advanced market to the mid- and low-level markets and back from the low-level market to the mid- and high-level markets, we call this a "natural flow and reversal" market passage locus.

Clothing is a similar kind of commodity. The ancient Chinese clothing market was the most advanced market in the world. At that time, China's clothing was unparalleled in the world market. Japan's most valued costume, the "kimono," had originated several thousand years ago in the Kingdom of Wu when two men brought



the costume of Wu to Japan, and the dress-making technique was passed on from generation to generation. After the capitalist industrialization, contemporary fashion became popular and was brought to China. Today, the garment industry in the well-developed nations has slumped, and this has given the Third World garment exporters an opportunity. Thus, the passage of the clothing market has gone through two cycles of the "natural flow and reversal" locus. The ancient garments were brought from China to the world and back to China. Contemporary and modern clothing in the post capitalist industrialization period originated in the well-developed nations and was brought to the Third World and is being brought back to the well-developed nations. Thus, the Third World countries' domination of the world garment industry since the 1960's is inevitable.

As for the mechanism behind the regular "natural flow and reversal" passage, simply speaking, it is the cyclical change in the relative advantages and disadvantages of the different countries in commodity production as conditions such as raw material supplies, arts and crafts facilities, and industrial structures change. We will analyze specific factors next.

#### **Today, China Has the Perfect Opportunity To Capture the International Garment Market**

At present, prospects of international trade are good. At the Guangzhou Trade Fair last year, in terms of volume of business, garment export ranked first among all of China's exports. Many clothing merchants from the U.S., Japan, and Western Europe flocked to the fair, and orders were overwhelming, especially for product categories under quota restrictions. The Eastern European countries' demand for medium-priced garments was substantial. Conditions responsible for this opportunity to expand China's clothing export trade include the following.

One, an overhaul of the worldwide industrial structure has reversed the clothing market passage. The high-tech revolution has caused a major adjustment and upgrade of the industrial structure in the economically advanced nations. On the one hand, these nations are now spending more money on research and heavily investing in the knowledge- and technology-intensive and high capital concentration territories such as bio-tech, aerospace technologies, laser technology, micro-electronics, new energy resource and new material developments to vigorously explore energy resources, new materials, and new products. On the other hand, the garment industry which uses little fixed assets and is a low-tech and labor-intensive industry has now been rendered a "sunset industry." These countries are no longer willing to spend any more production and research funds or waste their labor resources on that industry, and so it has lost its competitive edge. We must seize this opportunity and turn the garment industry into our "sunrise industry" and strive to capture the clothing market of the well-developed nations.

Two, recent changes in the international exchange rates have presented us with the opportunity to expand our clothing export. The significant appreciation of the Japanese yen and the Deutsche mark has rendered some exporting countries less competitive and given other developing nations the chance to get into the international clothing market. There is evidence that some countries are trying to minimize their exchange rate disadvantage by gradually converting their foreign trade from exporting to investing directly overseas. West Germany is Europe's largest clothing purchaser. Annual sales are around 20 billion Deutsche marks. In 1986, West Germany imported 14.4 billion mark's worth of clothing which accounted for 40 percent of their clothing market. Some of the imports were from China, and they intend to import more in the future.

The appreciation of the Hong Kong dollar, the new Taiwan dollar, and the South Korean won has also made these countries' garment exports less competitive. For example, clothing is not even included in the list of 10 major export products that South Korea intends to concentrate on in the future. Because China's main competitors are Hong Kong, Taiwan, and South Korea, their currency appreciation adds to the competitiveness of our products. In the first half of 1987, China has surpassed Taiwan as the U.S.'s largest clothing supplier. According to statistics, comparing the first half of 1987 with the same period in the previous year, garment export to the U.S., Canada, Japan, Western Europe, and Hong Kong has increased significantly. In 1987, total clothing export has reached \$1.6 billion, a 23 percent increase over 1986. We are certain that China's export volume will continue to increase at a substantial rate for some time to come. The reason is that during the second half of the 1980's, the world economy will continue to grow at a slow pace, and demand for clothing in the economically advanced nations will continue to grow. Furthermore, from the point of the long-term development, the Japanese yen, the Deutsche mark, the Hong Kong dollar, the new Taiwan dollar, and the South Korean won will continue to appreciate, and their production cost will therefore rise, so that to a large extent their clothing export will be constrained, to the advantage of China's clothing export trade.

Three, today, China is experiencing unprecedented peace, stability, and unity at home. The implementation of the policy to enliven the domestic economy and open up to the outside world has benefited the expansion of the clothing export trade substantially.

Four, we have a solid foundation for developing the garment industry. Historically, China has long been a magnificent nation with an ancient civilization. The essence of many nationalities can be incorporated into our clothing design. In Japan and Western Europe, clothing printed with Chinese characters such as "zhen," "ai," "mei," "xi," "fu," "lu," "shou," "ji," "xiang," are very popular, while in the U.S. people prefer animal prints such as the dragon, pheonix, tiger, and lion.



China traditionally has been a garment exporting nation. Our garment industry has a long history, and we have accumulated much experience and knowledge about design, production, and operations. We have a huge population which can provide ample cheap labor for the development of the clothing export industry. China has a rich source of materials for textile goods production and has an immense garment processing capacity, and all these will give momentum to the continued development of the garment export industry.

### **Reasons China Lacks Competitiveness in the International Clothing Market**

Market opportunity is but a possibility, and the important thing is to turn that possibility into a reality. We have to work very hard to realize the goal of exporting more than 2.4 billion yuan's worth of clothing by 1990. At present, the clothing export industry is plagued by the following problems:

1. Old-fashioned designs. If China wants to export more textile goods to earn foreign exchange, developing the garment industry is a top priority. To export more clothing, improving fashion design is the priority. The price of a dress is closely tied to its design. A set of fine fashionable clothes can sell for as much as 10,000 yuan. Poorly made clothes are worth nothing. The replacement rate of clothes is high. According to statistics, in the U.S., Canada, Western Europe, and Japan, every young woman has at least 20 sets of clothes. As people's material and cultural lives improve, and as their artistic and aesthetic preferences change, a particular fashion is in vogue for increasingly shorter periods of time, and the design standards are becoming more and more demanding.

The quality of China's fashion designer urgently needs improvement. Our fashion designers and their educational standards generally fall into three categories: the first are the old traditional designers, that is, the so-called "old tailors." The majority of them have at most upper grade elementary school or junior high education. There are only a few left in this category. The second group are the young and mature people who got into the clothing business first and then attended technical or polytechnic schools or studied on their own. They learn on the job. This is the largest group. The third category are the young and mature people who started out as art students and later specialized in fashion design. There are only a few of them, and they generally have polytechnic school or college education. At the second national "Golden Scissors Award" fashion design competition, 49 percent of the contestants failed the theory exam, and only 7 scored above 70 points. The top contestant scored just 75 points. Furthermore, few of our fashion designers know a foreign language, and even fewer are fluent in a second language. Reportedly, some overseas enterprises are willing to train our fashion designers, free of charge, but because of our designers' lack of foreign language training, the project has been abandoned.

In short, we must promptly train this nation's fashion designers, and raise their educational standards as soon as possible. This is imperative, because otherwise it will be impossible to realize the goal of expanding China's clothing export trade.

2. Crude textile design. Poor textile design naturally hampers clothing export. For example, 85 percent of Taiwan and South Korea's export textile goods are finished goods, but only about 40 percent of China's textile good exports are finished products, and among our export garments, a considerable portion are made out of imported fabrics.

Chinese-made fabrics lack variety; they are poorly made, difficult to handle, and do not have the latest fashion colors. We do not have the popular fabrics needed for the latest fashions, such as man-made silk, synthetic wool, or synthetic flax, nor do we have pre-shrunk, wrinkle-free, anti-static, or color-fast materials.

3. Inadequate supplementary materials. Supplementary materials mean accessories and other decorative items in dress-making such as shirts, lining, buttons, shoulder pads, cuffs, shawls, belts, waistbands, labels, and hardware. The accessories must complement the fabric to give the garment a finished and perfect look. Today, we still process shoulder pads the same way we did in the 1930's.

4. Obsolete garment manufacturing machinery. Today, the world's garment industry has turned to advanced electronics. Much of China's dressing-making, however, is still done by hand.

5. Slow turnover. Garment production is characterized by large variety, small quantity, frequent orders, and quick turnover. For example, most garment factories in Hong Kong, Taiwan, South Korea, and Thailand hire less than a hundred workers; a few may have several hundred workers, and usually delivery takes two weeks to a month. China's garment factories have at least several hundred workers, and sometimes several thousand workers, and the production line is extremely long. Deliveries often take six months to a year; a few may manage a minimum of 3 months. Often, when the goods are delivered, they are already out of season and must be sold at cut-rate prices. For example, in 1986, because we failed to load our garments on time, our export of knit-shirts to Japan was reduced to only 57.40 million pieces.

6. Insufficient attention paid to advertisement and publicity. In the wake of the development of commodity production and exchange, advertisement has become the most effective medium for introducing new products to the consumers. China's clothing export activities suffer from two major weaknesses. One, poor packaging of the

products hampers our ability to export more and generate more foreign exchange; and two, our reluctance to spend money on advertisement reduces the impact of our garment export.

7. Rigid foreign trade system. Compared to other developing nations, China's present foreign trade system and policy are too conservative, and basically they are still administrative-type systems, lacking in competitive market mechanisms and versatility. As a result, we are faced with the following problems.

i. Low rate of return. Our clothing export trade is not set up to make use of the country's comparative advantages. For example, last year, the clothing export business was good and material supply was tight, and yet many localities were exporting cloth. The cloth should have been processed into finished garments or even fashion clothing for export.

ii. Lack of information. Because the foreign trade companies are acting as "go-between" for the producing enterprises and the world market, the producing enterprises cannot react quickly to market opportunities.

iii. Absence of competition from imports. Internationally, the key garment exporters are the Asian-Pacific countries. Hong Kong, Taiwan, and South Korea, especially, are the top exporters in the world, and Thailand, India, Malaysia, Pakistan, the Philippines, and Indonesia are vigorously developing their export markets, trying to snatch some of our international clothing market share. This kind of heated international competition, unfortunately, is not shared by the domestic garment producing enterprises in this country.

iv. Lack of coordination between foreign trade and industrial policies and the foreign trade development strategy. From the point of the long-term development, China should adopt a foreign trade strategy which integrates export with the production of import-substitutes. The present export industry policy, however, instead of being export-oriented, tends to emphasize our short-term ability to earn foreign exchange by exporting. At present, we are massively exporting clothing materials to Hong Kong, Japan, and the U.S., and although in the short-run we are earning foreign exchange, in the long-run, we are nurturing our international competitors, and actually our short-term export profits will undermine our ability to realize our long-term strategic goal.

8. The resurgence of trade protectionism. The U.S. Congress has passed a resolution to limit China's textile goods and clothing import to a 3 percent increase per year. Reportedly, the Western European countries are also prepared to apply similar restrictions. Yet, so far we have not come up with the proper countermeasures.

### Proper Measures for Developing China's Clothing Export Market

To develop China's clothing export market, we must deal with many internal and external problems, and we should adopt the following measures.

1. Raise the design standards and expand the design team. Specifically, we should adopt the following measures:

a. We suggest establishing a college of costume design at the colleges or universities in the localities of the 10 major clothing export bases (Guangzhou, Xiaman, Hangzhou, Shanghai, Nantong, Nanchong, Qingdao, Dalian, Tianjin, and Beijing,) and organize a group of people with research, education, production, and sales backgrounds to prepare a special set of text books on different subjects in costume design. In addition, people who are currently working in fashion design and fabric design should be given more opportunities to do advanced studies.

In order to expand the fashion design team, we should vigorously set up a variety of short courses in fashion design to encourage the professional and amateur designers to work harder. If a design of an amateur designer is selected for use, he should be paid by the garment factory for his creation.

b. Perfect the learning facilities and raise the standard of the competition. China should set up the following facilities in the localities suggested for establishing the 10 clothing export bases:

i. A library of costume design.

ii. A costumes museum.

c. At present, we have many fashion design competitions, but the awards are mostly for good workmanship and rarely because a piece of work has launched a new international fashion trend. In the future, when China holds a fashion design competition or fashion show, we should invite well-known international designers to participate. This will raise the standard of this country's fashion shows and competitive events, and help our designs become a series of stylish and artistic works with national identity and greater variety.

d. We should organize different kinds of shows and exhibits, such as fashion design exhibitions, fabric shows, fashion accessory shows, costume exhibits, clothing manufacturing machinery exhibits, an so on.

e. We should name the good designers and create brand names. It has been learned that the Textile Goods Department acknowledged a group of good designers last

year. In the future, good fashion designers, fabric designers, tailors, and technicians should be recognized at regular intervals to amplify the tasks of comparison and assessment.

2. Train and nurture a group of advanced production technicians, and renovate and transform the equipment and facilities. In order to improve the quality of garment processing, first, we must open vocational schools and training centers to train the advanced production workers. Those who passed the courses will be awarded 5th to 8th grade technician diplomas which can help qualify them for key production jobs, pay raises, or promotions, and this can also improve the workers' operating techniques. Second, we must vigorously import all kinds of textile weaving machines and sewing machines which at present we do not have, or which we can produce but cannot guarantee quality or quantity, so that we can speed up the transformation of the mechanically obsolete processing industry.

3. Vigorously engage in scientific research and actively produce new styles, new fabrics, and new accessories. The international clothing market is always loaded with new products, for example, there are health fabrics, air-conditioned fabrics, clinical outfits, massage outfits, clothes that change color, multi-purpose clothes, zippered neckties, and even musical neckties.

4. Vigorously promote the "short, level, and speedy" strategy to meet the needs of the short international fashion cycle. We must pinpoint the characteristics of the clothing consumption market, reduce the size of enterprises, improve the production line, strive to speed up design, production, transportation, and delivery, and improve our contract fulfillment rate and export reputation.

5. Increase our advertisement budget to stimulate people's appetite for consumption. Last year, France sponsored the Second International Fashion Show and spent 15 million francs. This is an example of how other people are ready and willing to spend money on publicity.

6. We must reform our foreign trade system to promote clothing export. Specific foreign trade system reform measures should include the following:

a. The foreign trade companies should be turned into bona-fide economic entities which have business autonomy and financial independence, and we should integrate their responsibilities, rights, and privileges. The foreign trade economic entities should concentrate on developing the international clothing market, and take advantage of market situations to develop spot trade, futures trade, barter trade, compensatory trade, and triangular trade.

b. The foreign trade companies should be allowed to deal with a variety of commodities, and in fact, they should be turned into comprehensive commercial agencies.

These agencies should be set up as international operations with worldwide sales network and resident managers to speed up response to information and improve trade results. Meanwhile, the comprehensive commercial agencies should be allowed to participate in domestic wholesale and retail businesses, and domestic commercial enterprises should also be allowed to handle foreign trade. Both the comprehensive commercial agencies and domestic commercial enterprises should develop their import and export business activities under the leadership of the local foreign economic and trade commissions to facilitate negotiations with foreign merchants and prevent "outflow of profit" and unhealthy tendencies.

c. The export procurement system should be converted to an export agency system, and enterprises should be given the right to decide whether they want to be represented by a comprehensive commercial agency and be given the choice of agencies.

d. Fabrics, dyestuff, and other supplementary materials which can be exported to earn foreign exchange and can also be used domestically to make clothing for export should be offered to domestic enterprises first, but fund settlement should be based on foreign exchange.

7. We should use the quotas more efficiently and broaden the international clothing market. To counteract the increasingly vicious acts of trade protectionism, we should adopt the following countermeasures:

a. Make the best use of the quotas. First, we must use up all the available quotas. So far, we have not used up all our quotas for Western Europe, Eastern Europe, Africa, Latin America, and other regions. Therefore, we must design and produce clothing which are the current fashion in those markets, and use up the quotas. Next, because only the volume is restricted and not prices, our only recourse is to raise our design standards and increase the export of mid- to high-priced garments. We can consider emphasizing brand names in menswear and style in womenswear to raise the total bill so that we can earn more foreign exchange.

b. Expand the clothing export market territory. Among China's clothing export markets, the Eastern European, African, and Latin American markets can be further developed. China has a strong mutually beneficial trade relationship with the Eastern European countries, and they are very eager to import more medium-priced clothing from China, and developments seem to indicate that China's use of clothing and other textile goods in its barter trade with the Eastern European countries will expand rapidly. Therefore, we must vigorously design and produce clothing to satisfy the needs of that market.

The Latin American nations are heavily burdened with foreign debts, yet, many are hoping to increase their clothing import from China. We should actively explore this potential market.

c. We must actively seize the international clothing market to augment our present market share and explore international market potential. In order to launch a "three-dimensional attack" on our major export markets—the U.S., Canada, and Western Europe, that is, increase our export of low-, medium-, and high-priced garments to those countries, we should adopt measures such as:

i. Making use of the Latin American region's U.S. and Canadian import quotas. We can set up joint ventures with the Latin American countries and use that as the "beachhead" to invade the U.S. and Canadian markets. This way we can tear down their trade protectionism and circumvent their quota system.

ii. Taking advantage of the many preferential measures in the entrepot trade extended by the western European Economic Community nations. We can set up joint venture clothing enterprises in Spain, Portugal, Greece and other countries, and use those as "bridgeheads" to invade the Western European and other clothing markets. This way we can break through Western European protectionism's "Maginot line," and escape their import quotas.

Summing up the above, to develop China's clothing export market, we must establish an export-oriented clothing industry system which aims to satisfy the needs of the consumers in the international clothing market.

In short, from the central government to the local governments, from fashion designers to production enterprises, clothing agents, and merchants, everyone must think in terms of market economics, aim accurately at the needs of the international clothing market, and vigorously organize China's clothing export trade, striving to turn the nation into a "clothing empire" and "fashion empire" by the year 2000.

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#### **Fujian Official Discusses Ways To Attract Taiwanese Investment**

40060439b Fuzhou FUJIAN RIBAO in Chinese  
12 Jun 88 p 1

[Article by reporter Yan Zhenyu 7346 2182 5148: "Provincial Vice Governor You Dexin on Ways To Attract Taiwanese Investment: Improve Investment Climate and Encourage Taiwanese Commercial Interests To Fund and Operate Factories in Fujian"]

[Text] This reporter recently interviewed Provincial Vice Governor You Dexin [3266 1795 7451] and posed the question of how to attract Taiwanese investment and develop Taiwanese-invested enterprises.

#### **Fujian Province Boasts 68 Taiwanese-Invested Enterprises**

**Reporter:** What is the status of Taiwanese commercial interests investing in Fujian?

**You Dexin:** Since the end of last year, after Taiwanese authorities relaxed the ban on our Taiwanese compatriots coming to the mainland to visit relatives, the number of those coming for such visits and to tour, increases daily. Last year they numbered more than 22,000, and this year the total exceeded 14,000 from January to April. In this atmosphere, some Taiwanese businessmen also came to investigate the situation, hold discussions, and fund and operate factories. During the opening of the First Plenum of the Seventh National People's Congress this spring, when I had the opportunity to meet with Chinese and foreign reporters in Beijing, I primarily discussed policies and preferential terms pertinent to Taiwanese commercial interests investing in Fujian. These policies and terms focus on safety, favorable treatment, convenience, flexibility, and facilities. Taiwanese businessmen investing in Fujian enjoy favorable treatment in terms of both domestic and foreign investment. They find these policies beneficial, and universally welcome them. From January to April this year, an additional group of Taiwanese-invested enterprises were set up. There now are 68 such enterprises operating throughout the province, and all appear to be doing well.

#### **Enhance the "Hard Climate" and "Soft Climate"**

**Reporter:** How can we improve the investment climate and attract more Taiwanese capital?

**You Dexin:** Fujian has invested more than 4 billion yuan in infrastructure development in recent years. However, in terms of communications equipment, there are 100,000 program-controlled telephones in the province, with which we can call direct to 17 countries and regions, and 70 cities domestically. Plans call for further development of communications equipment. A period of 1 or 2 months is required to process visas at the present time for our Taiwanese compatriots who travel to Fujian by way of Hong Kong, and finding transportation is not easy. We are preparing to expand the Fuzhou and Xiamen airports, increase scheduled airline flights, and upgrade all-weather facilities. We have suggested to the Taiwanese authorities that we try making Jinmen a transfer point, and allow those who want to return to the mainland to visit relatives to sail to Xiamen via Jinmen, or to fly from Taiwan to Okinawa, and from there to return to the mainland by ship. We must continue to improve the "hard climate," but at the same time it is even more important to improve the "soft climate." We are in the process of carrying out reforms in the monetary, foreign trade and financial areas. We must continue to build foreign economic relations as a means to solve problems on an official level. The only way to sanction

Taiwanese investment at present is through the economic and trade commission. At the same time, preparations are underway to establish a Taiwanese compatriot investment and trade consultative and service company to provide services for our compatriots when they make investments in Fujian. In the future, Taiwanese investments can be sanctioned by this company. At the same time, we also must develop a foreign commercial enterprise goods and materials supply company to provide services for the three types of partially or wholly foreign-owned enterprises. In addition, we must enhance personnel training in order to adapt to the needs of developing circumstances.

### **The People Desire Expanded Fujian-Taiwan Economic and Trade Cooperation**

**Reporter:** What expectations do you have that Taiwanese industrial and commercial entrepreneurs will fund and operate factories in Fujian?

**You Dexin:** We warmly welcome Taiwanese entrepreneurs to fund and operate factories in Fujian. Some Taiwanese businessmen still have doubts; they worry that policy may "change," and fear there may be "land reform." We can assure them unequivocally that their worries are unwarranted. In due time, we may announce regulations to encourage Taiwanese businessmen to come to the mainland to invest, and provide more favorable conditions and legal safeguards. As for certain reforms still being inadequate, we are in the process of completing them now. At the same time, we are pushing ahead on development of a small-scale industrial park in the south Fujian "golden triangle" as an incentive for Taiwanese businessmen to fund and operate factories there. Further developing economic and trade cooperation between Fujian and Taiwan accords with the people's will, and is in line with the laws of economic development as well. All nations or regions go through five stages in their foreign economic relations and trade activities: trade deficits, balance, surplus, fund circulation, trade deficits. Taiwan presently is at the fourth stage. At this time of large-scale readjustment of the international industrial structure, Taiwanese entrepreneurs are investing abroad, and Fujian is the ideal place for this. This should come as no surprise. Moreover, conditions are favorable and labor costs are low. Of course the pace and scope of expanding economic and trade cooperation between Fujian and Taiwan, in addition to our working diligently, depend on the Taiwanese authorities. The "chess piece" has been picked up, but has yet to be played.

12513

### **Planning Official on Developing Industrial Bases in Fujian**

40060439a Fuzhou FUJIAN RIBAO in Chinese

3 Jun 88 p 1

[Article: "Provincial Planning Committee Vice Chairman Zhang Ruiyao Says To Develop Basic Industries and Create a Good Investment Climate"—First paragraph is source-supplied introduction.]

[Text] **The communications, energy and raw materials industries are basic to developing an export-oriented econ-**

**omy. If we do not give priority to development of these basic industries and there is not a suitable investment climate, it will be impossible to attract foreign businessmen or to export products, and we will not be able to achieve an export-oriented economy.**

*The vice chairman of the Provincial Planning Commission, Zhang Ruiyao [1728 3843 1031], has worked in the planning sector for over 20 years, is quite knowledgeable about the Fujian economy, and has compiled and published two treatises on the subject. This reporter asked him what the primary manifestations are of the province's irrational industrial structure.*

He answered by saying that throughout the years agriculture has held a central position in the economic structure of Fujian. In the years immediately following liberation, agriculture accounted for approximately 74.2 percent of the national economy, light industry accounted for 24.7 percent, and heavy industry accounted for 1.1 percent. Through gradual readjustment, last year the ratios were 33.5 percent, 39.4 percent, and 27.1 percent, respectively, forming a relatively complete industrial system. But in terms of developing an export-oriented economy, the present industrial structure is still not sufficiently rational. Primarily, we are somewhat weak in basic industries and infrastructure. Moreover, if we do not work on the infrastructure, any export-oriented economy we develop will be as unstable as a high-rise building constructed on a sandy beach. Therefore, in adjusting the industrial structure we must lean toward developing infrastructure and basic industries in order to increase our attractiveness to foreign businessmen.

*The reporter took the question a step further asking, in that case, what should Fujian do to improve its basic construction and infrastructure?*

Zhang sipped some tea and answered logically that during the period of the Sixth 5-Year Plan the province undertook 10 major construction projects, which have already yielded results. During the period of the Seventh 5-Year Plan, the emphasis must be placed on electrical power construction. Fujian's energy foundation is inadequate, and although it has developed quite rapidly in recent years, it still cannot satisfy production requirements. In 1980 the province's electrical power grid supplied 3.9 billion kilowatt hours of electricity. In 1987 it amounted to 7.9 billion kilowatt hours, during which the annual per capita consumption was only 300 kilowatt hours, and this was 100 kilowatt hours less than the average for the nation as a whole. In addition to three priority projects currently under construction, the Fuzhou thermal power plant, and the Shuikou and Shaxikou hydropower stations, in the near term the province also must construct the 1.2 million kilowatt Xiamen Songyu thermal power plant (in two phases), and the 600,000 kilowatt Yongding Mianhuatan hydropower station. We must get started on the 1.2 million kilowatt Meizhouwan Harbor power plant as well.

We must solve our raw material problems as quickly as possible in order to ensure the development of an export-oriented economy. Construction of the Meizhouwan Petroleum Refinery is scheduled to start by the end of the year, and at the same time development will begin on a series of products. The central authorities have initiated the Meizhouwan Iron and Steel Complex project and construction preparations are underway. Upgrading of the Sanming Iron and Steel Complex is in progress; while the facility presently has the capacity to produce 400,000 tons of steel and 300,000 tons of steel products annually, in 1990 it will produce 500,000 tons of steel and 420,000 tons of steel products, and in 1995 it will produce 700,000 tons of steel and 600,000 tons of steel products. There are other key enterprises which also need to be upgraded and their production expanded.

In the areas of communications and cargo transport, we must do several things: construct 12 deepwater wharfs by 1995 (3 passenger wharfs and 9 freight wharfs); extend the ocean transport corps; upgrade the Fuzhou and Chongan airfields, and complete the Xiamen airfield second phase improvement project; open up to electric locomotive traffic the Yingtan-Xiamen railway and those outside of Fuzhou, and upgrade the five arterial highways.

Agriculture is the foundation, and only when agriculture prospers can we provide more raw materials for industry. Consequently, we also must develop agriculture on a broad scale.

Zhang Ruiyao said that this is the way to "attract imports, sustain production, and deliver exports," and "provide electricity for the factories, raw materials for production, and outlets for products." Developing an export-oriented economy is the only way to increase our stamina and ability to compete.

12513

## ECONOMIC ZONES

### Shanghai's Hongqiao EZ Invites Bids for Land Usage Rights

40060487c Shanghai JIEFANG RIBAO in Chinese  
3 Jul 88 p 1

[Article by reporter Chen Jian 7115 0256: "Our Nation's First Transfer with Compensation of Land Usage Rights—International Bids for Hongqiao Plot #26 Were Opened Yesterday—The Six Bids Come From the U.S., Japan, Hong Kong and Local Investors"]

[Text] Bids for transfer with compensation of the land usage rights in plot #26 of the Hongqiao Economic and Technological Development Zone in Shanghai Municipality were opened yesterday morning at 10 o'clock in Shanghai Municipality. This is the first time our nation has accepted international bids for transfer with compensation of land usage rights.

Six bids were placed in two bid boxes located in Shanghai and Hong Kong and the bidders were investors from the U.S., Japan and Hong Kong and local investors. It is reported that evaluation and selection work on the bids is already underway. Within 1 week, the winning bidder will be informed in writing and the results of the bidding will be made public.

According to the original plan, the deadline for the international bidding was to be 12 o'clock sharp Beijing summer time on 30 June. The Shanghai Municipality Notary Office sealed up the bid box located in the Shanghai Real Estate Bureau on time. The other box located in Hong Kong at the Shanghai Industry Company was sealed up at 11 o'clock sharp Hong Kong time (12 o'clock Beijing summer time) by Attorney Ruan Beiyao [7086 0554 5069], acting on behalf of the Shanghai Notary Office. The bid box in Hong Kong was flown with a special escort to Shanghai and the bids inside were opened together with the bids made in Shanghai.

The Office Chief of the Leading Group of the Shanghai land use system reforms Jiang Rugao [5592 1172 7559], who is Director of the Shanghai Real Estate Bureau revealed yesterday that the bottom bid was placed in the Shanghai bid box 1 hour before the deadline by himself and the Chief of the Leading Group of the Shanghai land use system reforms Ni Tianzeng [0242 1131 1073], who is Deputy Mayor of Shanghai. Another person concerned revealed that the six bids made, two of them were placed in the bid boxes, one in Shanghai and the other in Hong Kong, within 1 minute before the close of the bidding.

Yesterday Jiang Rugao announced that the Deputy Secretary General of the Municipal Government Xia Keqiang [1115 0334 1730] would head the Evaluation Committee for International Bids in Shanghai Land Usage Rights, which has just been established. Evaluation and selection work on the bids is already being conducted under the supervision of the Shanghai Notary Office, and the results of the bidding will be announced within a week.

13072/12232

### Share System Stimulates Wenzhou's Economy

40060487b Shanghai JIEFANG RIBAO in Chinese  
13 Jul 88 p 1

[Article by reporter Gu Xuxing 7357 6079 5206: "Household Industry Quickens Steps Toward Joint Management in Market Competition—Rapid Development in Wenzhou's Share System Economy—After More Than a Year, It Has Spread Throughout Industry, Agriculture, Business, Communications and Financial Circles"]

[Text] Wenzhou city in Zhejiang Province, which has seen 100,000 of its supply and sales personnel travel extensively setting up several hundred thousand household industries, recently manifested an upsurge in the

development of its share system economy with over 47,000 share system enterprises starting up. This has pumped a new vitality into Wenzhou's economic development and experiments at reforms.

After the 3d Plenum of the 11th Party Central Committee, Wenzhou showed rapid development in its household industry, with primary representatives of this being the textile industry of Jin Township, the labeling industry of Yishan, and the electronic appliance industry of Liu City. Also, small commodity production promoted the market development with Qiaotou's button market, Xianjiang's plastic shoe market, and Tangxia's elastic cord market being well-known throughout the country.

However, in the final analysis, the boat was too small to make it through the storm, so household enterprises during their period of extended reproduction met with funding limitations and single products lacked the ability to compete in the market. As village household industry completed the initial stage of capital accumulations and market competition became more intense day after day, cooperative management under the share system became the new road for development of household industry. According to statistics, in Ouhai county alone last year there was a 50 percent reduction in household enterprises, but share system enterprises increased by 570 in one year. There are 680 private enterprises throughout Wenzhou offering shares to the public; because share system enterprise is superior to township enterprise in its form of enterprise organization, township enterprises throughout the city have been spurred on toward becoming joint stock enterprises. In the Shencheng District of Ruian County, 65 percent of the 364 township enterprises have already made the change to the share system. A total of 5,880 township enterprises city-wide have changed to share system management.

Over one year, the share system economy spread throughout industry, agriculture, business, communications and transportation, and the financial industry has seen rapid development in the experimental reform areas of Wenzhou. Using as an example Ouhai County which has seen the fastest development of the share system economy, in 1987 the share system economy already accounted for over 70 percent of the county's total output value and foreign trade products produced by share system economic enterprises accounted for 80 percent of this county's total foreign trade exports. What is worth noting is that the accumulation of fixed assets within 3 years by share system enterprises in this country exceeded the 30-year accumulation by state-run, city and township collective enterprises. The export-oriented enterprise Ouhai County Mountaineering Shoe Factory was set up by 26 farmers each putting up 3,000 yuan; its export value reached 28.92 million yuan in 1987. After this factory expanded its shares and increased its capital, that same year it established an associated enterprise with 13 factories earning foreign exchange, including packing box, toy, and sporting goods factories. This year

the county government approved this associated enterprise as the first county-level joint people's foreign trade industry company of its kind in Zhejiang Province. Next, this enterprise formed a corporate group together with the Shanghai Recreation and Sport Product Import-Export Company and its production value skyrocketed to 75 million yuan. This was a rapid completion of the developmental process of beginning as a household industry, passing through joint household, joint stock, and associated enterprise to forming a corporate group.

Share system enterprises symbolize the great strides toward the commodity economy of socialized production in the Wenzhou economy and also produce an enormous change in the flow of funds in Wenzhou. Consumption funds scattered in the hands of the citizens become large amounts of production funds; some business funds which were once used in circulation now are put into share system enterprises. Based on an investigation of over 140 share system enterprises within downtown areas, in 1987 50 percent of their share funds came from the consumer fund, and 30 percent came from business funds. In Cangnan County, funds for the 40 million shares basically came from these two channels. The influx of social funds and workers funds has also brought about the "restrictive mechanism" between shareholders in these share system enterprises, effectively overcome the "communal pot" style of corrupt management and, to a certain extent, limited the production of fake or deceptive products.

In the past few years, the roving generation of 100,000 Wenzhou supply and sales personnel has gradually been replaced by over 200,000 representatives of share system enterprises in the large cities throughout the country. They are no longer satisfied with the demand of production material and production business but have set their sights on science and technology territories as well as foreign markets. An individual concerned from Wenzhou told reporters: whether or not the present "share system economy" that has emerged in Wenzhou can become a new form of embryonic transition for village cooperative economic organization waits to be seen, but one thing is undeniable, this is the second wave, following the establishment of household industry, in the economic reforms in Wenzhou.

13072/12232

## AGRICULTURE

### Analysis of Peasant Poll on Rural Reform

40060441c Nanchang JIANGXI RIBAO in Chinese  
1 Jun 88 p 1

[Article entitled "Jiangxi Polls 500 Peasant Households on Rural Reform Situation: Peasant Standard Of Living Improves. Thorough Reform Remains a Formidable Task"]

[Text] Recently, this paper received a comprehensive report from the Agricultural and Labor Department of the Provincial Party Committee on a detail survey taken

among 500 peasant households throughout Jiangxi. The polls were taken in the province's 10 predetermined economic observation points (villages) using a random sample, and responses to the questionnaire were anonymous. The comprehensive report indicates that the restructuring of the rural economy, spearheaded by the output-based family contract responsibility system, has fundamentally reversed the ever-stagnant rural economic situation, and the villages have developed an economic macroclimate which promotes peasant independence, autonomy, and self-development. Most peasants have escaped poverty and are making the transition from being comfortable to being quite well-off. But the present rural development trend does not permit blind optimism: 7.4 percent of those polled are "dissatisfied" with the changes brought by the reform, and 15.2 percent find the change only "tolerable." This shows that the rural reform process is still faced with many conflicts and difficulties, and thorough reform remains a formidable task.

The report shows that, compared to the pre-reform era, most peasant households are better off with regards to food, clothing, housing, and utilities. Among all households polled, 473, or 95 percent, said the living standard has "improved," and only 27, or 5 percent, said it has "deteriorated." At present, however, only 4.5 percent of the peasant households are "well-off," and 64.4 percent are "well-fed and warm, but not rich," and 3.6 percent of the peasant households still "do not have enough to eat or wear." In response to the question of what contributed to the higher standard of living, 81.8 percent attributed it to "the allocation of land to the households through contract responsibility. It has mobilized the workers' enthusiasm." Another 57.2 [as published] percent attributed it to "more employment opportunities which led to greater diversification."

The report indicates that peasants have little confidence in the stability of the party's present rural economic policy. In response to the question "do you believe the party's rural economic policy will change?" 63.4 percent said "hard to say," and 7.2 percent said they "do not believe" that it would not be changed. Among these people, 37.8 percent believe that thorough reform will continue to benefit them and that their family's living standard "will improve somewhat" in the next 2 to 3 years; 2.4 percent believe that the living standard "will improve significantly," and 20.4 percent believe that things will stay more or less the same.

The report finds that peasant households are faced with many problems in their family business activities, and they need help in many areas: 67 percent of the sample households cited "the prevention and control of natural disasters" as the main problem, and they sought "coordinated assistance." 60.4 percent cited "irrigation and drainage" as their problem and wanted "organized solutions." 48.7 percent expressed "insufficient knowledge about farming," and asked for "guidance." 39 percent felt that "the contract period is too short," and

they asked for "extension." 27.6 percent indicated "shortage of all kinds of farm equipment have made life very difficult on the farm," and they asked for "more services."

The report pointed out that, at present, channels for product circulation are limited in the rural areas. Among the major agricultural products, the circulation of staple crops such as grain, cotton, and oil is as follows: 97.5 percent of the sample households sell all or most of their commercial grain to the government, and only 0.4 percent sell all of their grain in the market; 76.9 percent of the sample households sell all or most of their cotton to the government, and none of the sample households sell all of their cotton in the market; 79.4 percent of the sample households sell all or most of their oil to the government, and only 3.9 percent sell their oil in the market exclusively. 19.3 percent of the sample households (among them, 65 are grain producing households, 9 are oil and fuel producing households, 1 is a tobacco grower, 3 are flax growers, and 21 are bamboo growers) said that even after they have fulfilled their contract with the state for fixed and assigned procurements, they are still not allowed to sell their products in the market freely.

This report confirms that the more than 9 years of rural reform has brought changes to the economic status, living standard, and ideologies of the peasants in Jiangxi. However, it also shows that there are problems which urgently need solutions through reform and practice:

1. The standard of rural economic development is very low. The 500-household survey shows that only 32 percent of the families are well-off and comfortable. This is 6 percent below the national "10,000-household poll" figure of 38 percent. Furthermore, of the 500 households polled, 37.8 percent expect to see their living standard "improve somewhat" in the next 2 to 3 years, and only 2.4 percent expect "significant improvements." These responses are far below the national survey figures of 53.3 percent and 8 percent, respectively.

2. The worst problem in the present rural household-run economy is the low educational standard of the entire contingent of peasants. They are ill-suited to the needs of the development of commodity production. Of all heads of household in the 5 [as published] sample households, a whopping 64.2 percent have only learned to read, or barely can read, or only had elementary school education. This limits their choice of occupation: 92.6 percent of all households sampled are croppers. This further demonstrates that instead of looking at the rural labor force as an advantage, it should be more aptly considered a "pressure." This kind of "pressure" has yet to be released and transformed, and it is holding back rural economic development and keeping the peasants from becoming rich.



3. Under the "bi-level operation" mode of the present integration of centralization and decentralization, as primary level operations, family operations are gaining in importance. At present, weakness in the "central" level has hampered efforts to further reinforce and perfect family operations. The 500-household poll shows that peasants complain most loudly about the lack of attention by the authorities on problems which individual households cannot handle, and the fact that the economy is weak at the village level, and the government services have been inadequate, and most village cadres are irresponsible, and the relationship between cadres and the masses is tense. This incompatibility which has developed between "centralization" and "decentralization" is one of the main obstacles to the reinforcement and perfection of family operations.

4. As a transitional format the "double-track system" where the old and the new systems coexist has failed to shake the structural base of government monopolized and assigned procurement of farm products. As a result, the government's side of the "track" can always be extended, but the peasant's side of the "track" is stuck. Polls show that, one, products such as grain, cotton, and oil are bought up by the government, and only a tiny amount is available through the market. At present, peasants have not yet received any real benefits from market exchange. Two, market mechanisms which regulate peasants' means of production can be increased at random under the "double-track system," but market mechanisms for farm products seem to be shrinking everyday. Three, because the market for agricultural products is being monopolized, rigid separatism remains. Peasants, who have only recently been freed from the bondage of the natural economy and who have just begun to step into the market, find that they have only become independent producers.

Because of the tight supply-demand condition, some staple agricultural products which at one time were no longer under government monopolized procurement have been put back on the system. The development of market mechanisms once again is slowed. Straightening out the price relationships is a pressing issue. The reason peasants are very dissatisfied with the monopolized and assigned procurements is because they have not been treated fairly according to the law of value and they have not been able to enjoy more benefits in their daily life.

12986

**Limits on Land Use Contractual Agreements**  
*40060492a Beijing JINGJI CANKAO in Chinese*  
8 Jul 88 p 4

[Article by Li Xinguang 2621 2450 0342, Policy Laws Department, State Land Control Bureau: "Limits on Land Contracts, Contract Transfers, Sales of Use Rights, and Transfers of Use Rights"]

[Text] Following the Third Plenum of the 11th Party Central Committee, the country's far-flung rural villages universally instituted agricultural production responsibility systems of which family contract responsibility

systems linked to output were the main form. In instituting contract responsibility systems linked to output, the peasants spontaneously adopted a system of equality in the contracting of land. This method both maintained the system of public ownership of land, and also stimulated peasant enthusiasm for production for a great emancipation of rural productivity. Reform of the rural land use system spurred development of agricultural production.

Land contracting has two main features: 1. Contracts are methods whereby land use rights in peasant collectives are reconstituted and earnings are regulated. When peasant collective land ownership rights and land use rights are separate, the peasants obtain land use rights and the right to make a profit. 2. The base point for land contracting is the number of mu per capita or the number of mu per working capita in a family, land use being divided up equally household by household.

In the final analysis, however, the division of land among households, and the contracting of land on the basis of the workforce in each household is a product of historical conditions in a specific historical period. The problems it raises are as follows: Creation of barriers between different areas, fragmenting of fields, and division of the land into too small and scattered plots that make difficult the spread of agricultural mechanization; the enthusiasm of skilled farmers cannot be used to full advantage; and readjustments in the apportionment of land cannot be made quickly to keep pace with changes in population and the number of able-bodied people in peasant families. Thus, conflicts between collectives and peasant families, and between one peasant family and another are likely to occur. The development of agricultural production requires that farming be done on large size plots, and that land use rights may be transferred. In many places today, transfers of land use rights are done privately, and some places are in the process of experimenting with setting up land use rights transfer markets. Strictly speaking, the transfer of rural collective land use rights should be termed contract transfers inasmuch as transfers of rural collective land use rights must be done according to certain set principles as follows: 1. Transfers are essentially "contract" transfers; transfers do not change the nature of the contracts. During the early period of contract responsibility systems linked to output, land was divided up among households equally on the basis of either a certain amount of land per capita or a certain amount of land per number of working people in a family. Though equality is destroyed in the transfer of contracts, the nature of the contracts remain unchanged; it is simply that some people contract for much, some for little, and some for no land. 2. Contract transfers do not change the nature of land use for agricultural production; conversely, it strengthens it, and makes possible use of the land to full advantage. 3. Likewise, contract transfers are a reconstitution of land use rights within peasant collectives.

Both contracts and transfers of contracts are contracts or transfers of contracts for the use of land that belongs to

rural collectives, and both contracts and transfers of contracts may also only be done within this context.

The sale of land use rights for compensation is an innovation currently being carried out in reform of the urban land use system in China. Since land in China is under a system of socialist public ownership, reform of the urban land use system, specifically the change from use without compensation to use for compensation, requires a separation of land ownership rights and land use rights. Second, transfers of land use rights must be made in a fair, reasonable, and legal way. Further, there is the matter of transfers between one user and another. In order to clarify transfer actions at every level, and make sure that the language used in such transfers is accurate, in 1987 the government applied the recommendation of personnel studying state land control that transfers of state land use rights to a user should be distinct from transfers between one land user and another, and that state transfers of land use rights for compensation might more properly be termed sales of rights. This recommendation has been adopted by units concerned. Practice in all jurisdictions shows sales of land use rights for compensation as having three basic characteristics as follows:

1. The land that is sold is owned by the state; only its use rights are sold.
2. Once land use rights have been sold, though the user may change the original way in which the land was used, he must abide by the terms of the contract signed with the owner of the land.
3. The sale of land use rights is for compensation and for a fixed period of time.

Allowing land users to sell land use rights marks a major reform of the land use system. It is not only a necessary condition for the establishment and perfection of land markets, but it has also provided major impetus to development of the commodity economy. Transfers may be made in a broad or a narrow sense. Transfers in a broad sense include the sales mentioned above. Transfers in a narrow sense mean only transfers between one user and another. The latter kind of transfers must abide by the following principles: 1. Transfer may be made only after the original recipient of land use rights has invested a set amount of capital in the land received from the government; 2. the new recipient of the land use rights naturally inherits the land use rights established between the former user and the government, and the economic relationships and corresponding rights and duties of the seller; 3. transfers of land use rights must be conducted under control of land control units, and required registration procedures must be performed.

Clear distinctions about the limits of land contracts, transfers of contracts, sales of rights, and transfers of rights are basic to good performance of land control work, and are a prerequisite for more pervasive reform of the land use system.

9432

### State Adjusts Sugar Prices

40060474d Beijing *NONGMIN RIBAO* in Chinese  
11 Jul 88 p 2

[Text] The margin percentage between the wholesale and retail prices of sugar currently varies from place to place. Because the latest increases in sugar prices are substantial, the margin percentage should be adjusted. Where the increase exceeds 12 percent, the margin percentage should be lowered by 1 point.

The ex-factory price of white sugar will go up 650 yuan per ton from the existing official price. Specifically, Grade 1 white sugar made of southern sugar cane will increase from 1,000 to 1,650 yuan in Guangdong, Guangxi, and Yunnan; from 1,050 to 1,700 yuan in Fujian; from 1,120 to 1,770 yuan in Jiangxi, Sichuan, Zhejiang, and Hunan; and from 1,200 to 1,850 yuan in Guizhou. White sugar made of northern sugar beet will increase from 1,200 to 1,850 yuan in Heilongjiang, Jilin, Nei Menggu, Xinjiang, Shanxi, and Ningxia. The ex-factory price of confectionary sugar will be adjusted by the localities, but it must not exceed the ex-factory price of white sugar by more than 20 yuan per ton.

The allocation prices of sugar within a province, autonomous region, and or municipality directly under the central government are to be decided by the appropriate provincial, regional, or municipal commodity price department in consultation with the proper authorities. The allocation price of white sugar will go up 660 yuan. Specifically, the allocation price of white sugar made of sugar cane from the south went up from 1,170 to 1,830 yuan per ton, while that of white sugar made of sugar beet from the north was raised from 1,250 to 1,910 yuan per ton. The allocation price of confectionary sugar will be higher than that of white sugar by 20 yuan per ton.

Following the adjustment of sugar allocation, the policy of "one ton of sugar for one ton of grain," intended by the central government as an incentive to encourage the production of sugar crops, will remain unchanged. Sugar to be turned over to the state will continue to receive subsidies from the national treasury.

To facilitate allocation within a province and ensure supply for the rural areas, the provinces may widen regional price differentials where such differentials are too small and create rural-urban price differentials where there are no such differentials, as appropriate.

12581

### Anhui Pig Output

40060470a Beijing *JINGJI CANKAO* in Chinese  
20 Jul 88 p 2

[Article by Shi Xuan 4258 6513: "Hog Production in Anhui Province Steadily Picks Up—Pig Supplies For This Winter and Next Spring Will Still Be Slightly Tight"]

[Text]

### Market Predictions

The Anhui Provincial Food Company recently held a conference to analyze the hog production situation and their analysis shows that current hog production in Anhui Province is already beginning to steadily pick up after being in the doldrums. At the end of May, there were 11.8 million hogs in pens province-wide. Although this represents a 1.4 percent drop from the same period last year, it is an increase of 2.36 percent over the numbers for February of this year.

Although hog production in Anhui Province is steadily picking up, certain new situations and problems have emerged. First, development between regions is not even. Areas along and to the north of the Huaihe have bounced back to fairly rapid hog production, but certain areas along and to the south of the Changjiang still haven't recovered to hog production levels for the same period last year. Second, the increase of sows and piglings has been fairly rapid. At the end of May, there were 655,100 sows and boars in pens province-wide, a 9.53 percent increase over the same period last year. There were 1.58 million piglings in pens province-wide at the end of May, an increase of 21.9 percent over the same period last year. Because farmers seem to be holding on to their sows, this strengthens the production stamina of their hogs. However, it also creates a problem of imbalance between the proportions of sows and boars. Under normal circumstances, the ratio between boars and sows would be 1:15-20, but now it is generally about 1:60. Third, the number of hogs and porkers increased. At the end of May, the number of full-grown porkers weighing over 65 kilograms had increased 21.1 percent over the same period last year. Among these, large porkers weighing over 100 kilograms had increased 53 percent over the same period last year. Hogs already account for nearly one-third of all fattening pigs. Fourth, the number of medium size feeder pigs dropped drastically. At the end of May, the number of fattening pigs weighing between 51 and 65 kilograms had dropped 18 percent from the same period last year, and there was a 15 percent drop in those weighing between 25 and 50 kilograms.

The business sector predicts that hog production and sales will take a turn for the better in the second half, and there might be ample supply in the off season of the third quarter and a slow down in the busy season of this winter and next spring, with supply and demand tending to ease up. Farmers may concentrate sales of hogs in the late summer and early autumn. However, because of the fairly large drop in medium size feeder pigs, this winter and next spring we may see fewer pigs and higher prices with another pronounced contradiction between supply and demand.

13072/12232

### Fujian Increases Hog Production, Stabilizes Pork Supply

40060433d Beijing JINGJI CANKAO in Chinese  
9 Jun 88 p 2

[Article by reporter Zhou Junxiang 0719 0193 4382 and correspondent Meng Changji 1322 7022 1015: "Augment Construction of Hog Production Bases: Fujian Stabilizes Pork Supply After Price Decontrol"]

[Text] Fujian, which has a perennial shortage of grain and hogs, has been vigorously developing non-staple food, especially hog, production bases since last year, with good results. As of the end of March, the province had 8.2 million head of hogs, 4 percent more than last year, and government procurement and market supply have also increased. Since the decontrol of prices on 1 May, all cities throughout the province have had ample pork in stock; price fluctuation has been minimal, and market supply has been stable.

In order to solve the long-time pork shortage problem, last year, Fujian started a group of non-staple food production bases, with the emphasis on hog production, in 10 cities and 2 prefectural seat counties. It is hoped that by 1990, the bases can supply 650,000 head of commercial hogs. With another 350,000 head raised in other counties and brought to the cities each year, the 1 million head can satisfy 80 percent of the demand by state-run businesses.

To expedite the development of hog production, relevant departments in the province have enacted a series of preferential measures:

—A policy which links pork to feed. Fujian has decided to allot 100 million kilos of unprocessed grain each year, for the next 3 years, in exchange for the procurement of live hogs. At the production base, for each sow, it is allotted a fixed quota purchase contract for 300 kilos of unprocessed grain or equivalent amount of mixed-feed. Porkers receive jin-for-jin allotments, paid on delivery of hog.

—The pricing policy. To entice the bases (households) to raise hogs, many localities have implemented protective prices for piglets and porkers based on reasonable hog-feed price ratio. Price difference will be paid out of the non-staple food production development fund.

—The tax policy. Power to reduce or exempt taxes on live hog products is devolved to the county (city) level. Feed producing enterprises are exempt from product and business taxes. Local food departments in financial difficulty may apply for tax reduction or exemption at the local tax bureaus.

—The establishment of a non-staple food production development fund. Beginning this year, the provincial level funds will allocate 8 million yuan each year to a special fund, and in 3 years, there will be 24 million

yuan. Meanwhile, the money will be used by the provincial Department of Commerce to set up a Non-Staple Food Fund Development Corporation which will be given a supply of highly marketable goods and will enjoy preferential treatment. It is hoped that in 3 years, the corporation will be worth 26 million yuan, and the profit will be transferred to the non-staple food development fund, thus using commerce to support hog production.

Some of Fujian's live hog production bases are operated by state-run commercial departments; others are operated by township collectives, large specialized households, brigades, or qualified enterprises and public agencies. After local leaders began to pay attention to these operations and adopt effective measures, Fujian's live hog production bases promptly began to display their ability to stabilize supply. The 10 cities and counties in Jianyang Prefecture have set up a total of 123 bases. Last year, of the 170,000 head of hogs sold by the state-run food departments, 120,000 were supplied by those bases. After several year's hard work, Nanping City is now "raising pigs as the chief occupation, and it combines breeding with crop growing to maintain a comprehensive operation and strive for all-around development." Last year, the city's 18 bases earned 13 million yuan, yielding 210,000 yuan in total profit. These bases can produce more than 40,000 head of hogs for the city each year; state-run businesses account for 70 percent of the market supply, and the city's pork supply problem is essentially solved.

12986

### **Heilongjiang Emphasizes Agricultural Science, Technology Loans**

40060492c Beijing JINGJI CANKAO in Chinese  
1 Jul 88 p 2

[Article by Correspondent Peng Jiao 1756 2403: "Heilongjiang Provincial Bank of Agriculture Emphasizes Support for Progress in Agricultural Science and Technology. Capital Plus Science and Technology Multiplies Capabilities"]

[Text] A combination of loan funds and science and technology have become a powerhouse for development of the rural economy, and have also produced a benign cycle in Bank of Agriculture business. This has been the profound lesson learned from the experience during the past several years of the Heilongjiang Provincial Bank of Agriculture in providing loans for the support of progress in agricultural science and technology. In 1988, the bank again earmarked 400 million yuan of loans for the support of agricultural science and technology projects. These funds amount to half the total amount of loans to be made for agricultural production in 1988.

Formerly, agricultural loans in Heilongjiang Province had always been primarily "to maintain farming." Loans were made in the spring and collected in the fall, and were granted only to maintain simple reproduction.

Frequently more was loaned for agriculture than was collected. The rural defaulted loan debt for the province once reached a maximum of 1.2 billion yuan, thereby adversely affecting returns on loans. Since 1983, the provincial Bank of Agriculture has gradually improved its loan structure, focusing on support for the spread and application of advanced agricultural science and technology. In 1984, it supported an experiment involving the thin planting of early developing paddy rice in Fangzhen County that produced a 30 to 50 percent increase in yields, and no defaulting on loan repayment. In 1985, the bank supported Zhaozhou County in the tackling of multiple techniques for the growing of corn over wide areas, with the result that this county's gross output of grain doubled in 1 year. Not only did it repay the loan in the same year, but it also repayed 20 percent of old loans outstanding.

Since 1986, the Heilongjiang Bank of Agriculture has voluntarily cooperated with science and technology units. It has curtailed ordinary production loans in favor of providing more funds to support scientific and technical attacks on key problems and to support bumper crop plans. In 1987, 240 million yuan in agricultural science and technology loans were issued throughout the province, amounting to 35 percent of the total sum loaned for agricultural production. These funds were used to assist 1.16 million peasant households in 42 counties farm their fields scientifically, to spread more than 20 different new techniques, and to expand the cultivated area by 31.56 million mu for a gross output of 9.9 billion jin. Fifty-eight percent of the province's total grain output was obtained from less than one-third of its cultivated land.

The close combination of funds and science and technology has enabled the rapid translation of science and technology into productivity. More grain has been produced; the peasants have become more prosperous; and year after year, the Bank of Agriculture has recovered ahead of schedule loans made in the current year, plus some part of old loans outstanding. The current amount of old loans outstanding in the province has been reduced to 800 million yuan from the 1.2 billion yuan of a few years ago.

In 1988, the Heilongjiang Bank of Agriculture and scientific research units, institutions of higher education, and materials supply units set up a joint coordinated leadership group for the support of progress in science and technology, which has jointly formulated development plans for progress in agricultural science and technology, and has also organized to carry them out. The loan policy of the Bank of Agriculture with regard to loans for science and technology is one of "three priorities and one favorable term," namely priority for households demonstrating science and technology, priority for households having a high commodity rate, and priority for export agriculture that produces foreign exchange, all of which may be granted favorable loan interest rates. The bank also coordinates closely to provide a series of

services to far-flung peasant households such as scientific and technical advice, loans, materials, financial management, and marketing.

9432

**Jiangsu Raises Rapeseed Procurement Prices**  
40060474c Beijing NONGMIN RIBAO in Chinese  
27 Jun 88 P 1

[Article by Shen Jia 3088 0163: "New Rapeseed Procurement Price 53.60 Yuan Every 50 Kilograms"]

[Text] The Food Bureau and Commodity Bureau of Jiangsu Province recently decided to raise rapeseed procurement prices this year by an appropriate margin. The contract procurement price of rapeseed has been increased by the state from 46.8 yuan to 50.4 yuan. On that basis, rapeseed will be procured at the unified price (70 percent order price, 30 percent market price) of 53.60 yuan every 50 kilograms, 3.20 yuan more than the price set by the state. Peasants can opt to take the cake. Otherwise, the price would be increased by an additional 2.40 yuan.

To encourage peasants to sell more rapeseed, the province has decided to implement a policy of linking rapeseed with oil. For every 50 kilograms of rapeseed sold at the unified price, the peasant can purchase 5 kilograms of high-quality standard oil, which will be supplied by the provincial Food Bureau and supply and marketing cooperative. To coordinate with the procurement policies of neighboring provinces and regions, 1.5 kilograms of vegetable oil will be supplied preferentially at the order price for every 50 kilograms of rapeseed procured at the unified price.

The unified procurement price of rapeseed containing less than 5 percent of mustard acid is 57.2 yuan every 50 kilograms. No cakes will be returned. Other than that, policies on regular rapeseed apply here as well.

The price of inexpensive vegetable oil remained unchanged following the adjustment of rapeseed procurement prices.

12581

**Agricultural Inputs Credited for Higher Grain Yield in Jilin**

**Commodity Grain Bases in Debt**  
40060382b Beijing JINGJI RIBAO in Chinese  
13 Jun 88 p 1

[Article by Xie Zhenjiang 6200 6966 3068 and Zhong Bin 6988 3453: "The Primary Reason for Successive Increases in Grain Production in Jilin—the Resolute Application of Limited Funds To Raise Agricultural Inputs; Now the Problem Is That We Cannot Let the Burden of Commodity Grain Bases Grow Heavier and Heavier"]

[Text] Jilin, located on the Songliao Plain, has become China's richest grain basket. For several years now the trains have rumbled through bound for distant places,

and although a hundred-plus cars of grain are shipped out every day, there is always an abundance of grain yet to be shipped. This accomplishment is the result of overcoming one difficulty after another in upper and lower administrative levels throughout the province. We have persistently increased agricultural inputs, raised soil productivity, and developed grain production.

Right now Jilin's accomplishments stand out as golden laurels on the brow of overall grain production nationwide. In Jilin there is an average of 720 kg of grain per capita; we transfer out 3.5 billion kg of grain each year, including 2.5 billion kg in exports; and we boast a 60 percent ratio of marketable commodities in grain production. Jilin ranks first in the nation in these important economic indicators. In 1987 the total grain yield in Jilin reached 16.76 billion kg, breaking our highest historical record. The essential reason for Jilin's success is that the provincial government and CPC committee have resolutely implemented the central government's policy recommendations on making agriculture fundamental. As they steadily put the output-related system of contracted household responsibility into effect in the countryside, they also persisted in augmenting agricultural inputs.

Jilin is blessed with superior natural conditions for developing grain production. There are 59.60 million mu of arable land in the province, or 4 mu per capita in the farming population. Moreover, Jilin's primary grain land is situated at the same latitude as the world-famous U.S. corn belt. The soil is fertile, and sunlight, temperature, and precipitation are supremely well-suited to crop growth. However, Jilin is a financially subsidized province, and local financial resources are scarce. Yet, under financially strained circumstances, from 1982 to 1987 local coffers put 5 billion yuan in input into agricultural production and grain farming. In 1987 the amount contributed amounted to about one-quarter of the total local revenues for that year.

As it builds commodity grain bases, Jilin is still actively striving for state support and seeking to expand agricultural inputs. Beginning in 1983 the province determined that 6 counties (and cities) with superior conditions for grain production—including Yushu, Nongan, and Dehui—would become state commodity grain bases. Jilin signed a contract to that effect with the state and received 30 million yuan in funds to construct irrigation systems, agricultural technology extension systems, and breed improvement systems. In only 3 years the province expanded commodity grain production by 4.35 billion kg. Figured on this basis, this accomplishment is approximately equivalent to raising commodity grain output in one year by nearly 48 kg for each 1 yuan of input. Now the number of commodity grain base counties in Jilin has risen to 13. The state-level departments concerned have promised to invest 150 million yuan in these bases, and local treasuries have arranged to invest an additional 150 million yuan.

From another perspective, the increase in material and technological inputs has also guaranteed a large-scale expansion in grain output. Given the extreme shortage of chemical fertilizer, leading government departments at all levels did everything possible to marshal supplies. Provincial foreign exchange reserves amounted to only 150 million yuan, but 30 million yuan of that was extracted and used to buy chemical fertilizer to fill the need. In 1987 the state plan allocated only 1.25 million tons of standard fertilizer for Jilin, but hard work in every area resulted in 2.7 million tons of fertilizer for our actual use. At the same time, the Jilin Department of Agriculture also widely promoted yield-boosting techniques. By this year improved varieties had been disseminated over 95 percent of the province, the area cultivated with high-yield fertilizer amounted to 19 million mu, and the area treated with formula fertilizer reached 15 million mu. Each material and technological input directly spurred improvements in unit yields. In 1987 the average per-mu yield reached 321 kg, and the per-mu yield for corn, a high-yield crop, reached 387 kg. This is equal to the level in the world's advanced nations.

Given these successive years of substantial growth in Jilin's grain production, it is curious that because of irrational pricing and other policies, and because local treasuries bore for the state many of the costs of storage, shipping, and even production inputs, such anomalies as "high-output, poor households," "high-output, poor counties," and even a "high-output, poor province" have appeared. Rural Jilin has now accumulated a debt of 2 billion yuan, including loans and circulating public financial aid funds, amounting to an average of over 130 yuan for each member of the farming population. In particular, some regions that have made major contributions and sold a lot of commodity grain to the state have also incurred large debts. In 1987 the per-mu grain yield in Gongzhuling City, one of the state's commodity grain base counties, reached 544 kg, and the county sold 1 billion kg of grain to the state. But agriculture in the city has now accumulated state loans amounting to 186 million yuan, or an average of 199 yuan per person. Debts are substantial and there is also significant pressure on funding. Upper administrative levels have no reasonable credit policies. Thus, although region after region is reporting grain shortages, in Jilin farmers from many areas have on hand a combined total of nearly 3 billion kg of grain that they cannot sell promptly. After the spring sowing this year the line of farm vehicles in front of state granaries waiting to sell grain was still a kilometer in length.

Many wise people are saying that this situation of high grain output, low returns, and heavy debts cannot continue. If things go on like this it will surely blunt enthusiasm for grain production in grain-producing regions and among the peasantry. The relevant state-level departments must resolutely adopt measures to turn things around as quickly as possible. We cannot allow key commodity grain-producing regions to bear the burden of developing grain production.

### Commentary Urges New Efforts

40060382b Beijing JINGJI RIBAO in Chinese  
13 Jun 88 p 1

[Commentary: "Invest Grain Production With New Life and Vitality"]

[Text] Grain production is the core issue in agriculture. In 1987 grain production in China reached 402.4 billion kg, nearly a record-breaking level. But, in the long term, agriculture in China is facing a very difficult future. China now has more than 1 billion people, and there is an average of only 1.5 mu of arable land for each person. As the economy develops and income rises it is very difficult to refrain from changing dietary composition—to just maintain current standards and not increase grain consumption. In Shanghai and Tianjin the annual per capita grain consumption has now reached 525 kg, and it is even higher in Beijing. By the end of this century our total population may reach 1.25 billion, and if we increase our annual grain output by 500 billion kg our per capita grain holdings will remain at 400 kg—about the same level as today—but actual consumption may be somewhat higher. If so, we will have to rely on substantial imports of grain in order to meet our needs. It would be unwise for such a large nation to rely on imported grain. Consequently, the issue of grain production is still a prominent problem facing us. If we fail to resolve this satisfactorily it will affect the smooth progress of reform and the four modernizations.

Right now grain production is beset with many conflicts. The cost of materials for agricultural production is rising precipitously and many important agricultural materials are in short supply. The comparative returns on grain farming are dropping, irrigation systems in many regions have been neglected for many years, and enthusiasm for grain farming has dulled in many regions and among many farmers. Consequently, we must adopt comprehensive control measures, intensify agricultural reforms, and invest agriculture with new life and vitality.

In Jilin's experience, to develop grain production we must first perfect the output-related system of contracted responsibility. Simultaneously, we must vigorously advocate and develop social services—we must enhance controlled planting, crop protection, and other pre-production and post-production services. Second, we must gradually reform pricing policies and reorder the profit relationships between industries. In the future we must not weaken or eliminate our efforts to subsidize agriculture with industry, forestry, and specialty products; rather we must further develop and perfect these efforts. Third, we must increase agricultural inputs, especially scientific and technical inputs, and enhance development of agricultural resources. Only in this way can we push grain production to a new level.

### Discussion of Liaoning's 'Inferior' Rural Labor Force

40060441b Shenyang LIAONING JINGJI BAO in Chinese 21 Jun 88 p 2

[Article in Issues Studies Column by Jia Jihua 6328 4949 5478: "Liaoning's Inferior Rural Labor Force Is a Pressing Problem"]

[Text] Based on sample survey in 23 counties and 69 villages and hamlets in Liaoning, in 1987 the number of people in the rural labor force has increased, but the quality of the labor force has declined, and the quality gap is wide between the primary, secondary, and tertiary industries.

Based on sample surveys taken in the past two years, the 1987 rural labor force has increased 4.7 percent, but the quality of the labor force has declined. The number of workers with higher than middle school education has dropped; they make up a smaller proportion of the total labor force than before. There are more illiterate and semiliterate workers. According to survey, the proportion of workers with college education has dropped from 0.05 percent in 1986 to 0.03 percent in 1987; those with polytechnic school background has dropped from 0.35 percent to 0.33 percent; workers with high school education has dropped from 6.69 percent in 1986 to 5.43 percent in 1987; workers with middle school education has dropped from 37.1 percent to 34.9 percent, while those with elementary school education, the illiterates and semiliterates have increased from 55.78 percent in 1986 to 59.27 percent in 1987. In the breakdown by different rural industries, those in the primary industry are of a lower quality than those in the secondary and tertiary industries. This not only undermines the development of agricultural productions but also slows the shift of the labor force to the secondary and tertiary industries or other trades.

Many factors contribute to the poor quality of Liaoning's rural labor force. The main factors are: 1. Some peasants still believe that "with or without education, we can still make a living on the farm." After the implementation of the output-based family contracted responsibility system, many peasants only have eyes for immediate profit. They want to get rich fast, and are reluctant to send their children to school. As a result, many elementary school students have dropped out of school and returned to the villages to take up farming or other sideline productions, and therefore, the number of workers with only elementary school education, illiterate and semiliterates have increased. 2. Village schools tend to have less-qualified teachers. The schools are not up to standard, and peasants have the impression that school makes no difference, and education is a waste of money. 3. With the thorough restructuring of the economic system in the cities and the development of township enterprises, urban and rural enterprises have attracted the more educated, those with special skills, and the qualified young, and mature, workers. Although this may have

helped relocate a part of the surplus rural labor force, to a certain extent, it also has lowered the quality of the agricultural labor force, especially since only older men, women, and unskilled youngsters are left in the primary industry. The agricultural labor force is dominated by the aged, the women, the youngsters, and the inept. If this situation is not promptly reversed, it will threaten the continued development of agriculture.

Based on the above analysis, improving the quality of the rural labor force is an urgent task. First, we must thoroughly reform the rural education system and increase rural educational and cultural investments. We must reinforce efforts to train specialized personnel in the villages, and make use of the colleges and the county and village vocational technical schools to train and nurture all kinds of specialized personnel. In addition, we must mobilize the urban intellectuals to actively seek work or teach in the villages, to learn more about the villages, and to spread scientific and technological information. Furthermore, we must give full play to the existing technical personnel in the villages, and "pass on experience, give help, and set an example" to promptly raise the the peasants' cultural and technological standards.

12986

### Shanghai Readjusts Oil Prices

40060474b Beijing JINGJI CANKAO in Chinese 16 Jun 88 p 2

[Article by Li Lin 2621 2651: "Upward Trend in Oil Prices in Shanghai"]

[Text] Since the beginning of this year, all edible oils have risen in price in Shanghai. Owing to a drop in the number of live pigs in stock last year, lard has been in short supply and its price has skyrocketed from 2,200-2,600 yuan per ton late last year to 4,000 yuan early this year. With lard scarce and lard prices soaring, some factories that used animal fats as raw materials in the past have now switched to vegetable oils successively, thus affecting vegetable oil prices.

There is an acute shortage of vegetable oils at the moment because some producing areas were hit by disasters this year and lard has been scarce. After remaining stable throughout last year, vegetable oil prices have now risen to about 3,500 yuan per ton. Soya bean oil, of which there is a good quantity in stock, is expected to sell briskly. With animal fats supply declining and vegetable oil prices climbing, soya bean oil prices have also increased.

Cottonseed oil is not only an edible oil, but also has multiple industrial uses. The drop in cotton cultivation in recent years, which means less cottonseed oil, has forced some factories to substitute with imported palm oil. But with the current shortage of vegetable oils on the

international market pushing up palm oil prices significantly, palm oil imports have been cut back. As a result, cottonseed oil prices in the nation also have shown an upward trend.

The supply of sesame oil, not in extensive use in Shanghai, has remained stable while its prices have edged up slightly compared to last year.

Right now a major effort is under way in every locality to raise more pigs. While the supply of animal fats in the latter half of this year is expected to improve, prices would remain at very high levels. There is plenty of vegetable oils in stock, with buying and selling to stay stable. The upward adjustment of procurement prices, however, should preclude a substantial fall in market selling prices.

12581

### **Water Shortage in Shanxi Reaches Crisis Proportions**

40060474a Taiyuan SHANXI RIBAO in Chinese  
6 Jul 88 p 2

[Article by Li Qiantai 2621 0051 1132: "Wastefulness Worsens Water Shortage"]

[Text] 1. China has a huge population but little water resources. While it ranks sixth in water resources worldwide, it comes in 88th in per capita water consumption. For years per capita water consumption in Shanxi has been 1/20th of the world's and merely 19 percent of China's average. That makes Shanxi one of the four provinces in the nation with the lowest per capita water consumption, on a par with the driest country in the world. The province's water consumption per mu is a mere 13.4 percent of the nation's average, the second smallest in all China.

2. The annual demand for water in Shanxi has exceeded supply. Without water, many factories have suspended or cut back on production. (The value of lost output at Taiyuan Chemical Plant alone amounts to 100 million yuan each year.) Low-pressure water supply to residential buildings is extremely erratic, sometimes bad enough to send tens of thousands of residents to look for water everywhere, carrying it on their shoulders and pushing it by hand so as to obtain a minimum supply.

Without water resources, wetlands have been shrinking year after year. The area under effective irrigation dropped from 17.26 million mu in 1982 to 16.77 million mu last year. Only a little over 12 million mu were actually irrigated.

3. Water pollution has widened the gap between supply and demand. Most of the rivers in the province have lost their self-cleaning capability. Phenol contamination in the largest river, Fen He, is so serious that it threatens the drinking water of 500,000 people. Large quantities of

sewage from Changzhi were discharged into the Zhangze Reservoir, destroying a source of drinking water and water for daily use. There was no alternative but to divert water from Zhanganquan over a vast distance. In the wake of the development of township and town enterprises, water pollution, formerly an isolated problem, has become omnipresent. Sewage has seeped into groundwater and spring water, jeopardizing people's health and lives. In many places, the long-term consumption of polluted water has resulted in a sharp rise in the incidence of cancer. A shockingly high percentage of babies were born with birth defects. In some urban and rural areas, not a single young person old enough to join the army passed the physical examination for military service.

4. Despite the dire shortage of water resources in the province, we have been amazingly wasteful consumers. In industry, the equipment of 65 percent of the province's mainstay enterprises are heavy water users based on water-intensive technology. To produce 100,000 yuan of output value, we use 58 percent more water than Beijing, yet our water recycling rate falls short of Beijing's by 13 percent. Due to mismanagement in both domestic and municipal water consumption, dripping and leaking faucets are everywhere. In agriculture, extensive irrigation remains the major method. There are over 90,000 kilometers of permanent irrigation ditches, diverting 4 billion cubic meters of water. Yet there are only 30,000 kilometers of seepage-proof canals. As a result, 1 billion cubic meters of water are lost through the ditches. It takes 80 to 140 cubic meters of water to irrigate 1 mu, 60 to 80 cubic meters more than the developed places in the country. In other words, over half of the water used in irrigating one mu is wasted.

12581

### **Shanxi Develops Small-Scale Fertilizer Production Industry**

40060441a Taiyuan SHANXI RIBAO in Chinese  
7 Jul 88 p 2

[Article in Investigation and Research Column by Zhang Ruizheng 1728 3843 1794: "Face the National Market, Shanxi Vigorously Develops Small-Scale Fertilizer Production Industry"]

[Text] At present, Shanxi is facing a situation where there are too many small-scale chemical fertilizer plants and too few large-scale plants. Then why are we developing the small-scale fertilizer production industry? The answer is, we want the industry to go beyond the hometown and step into the national market where demand is climbing everyday.

Shanxi is the nation's major energy and heavy chemical and industrial base. It has an extremely rich supply of coal and charcoal, and enjoys exceptional advantage for



having ample raw materials for the production of chemical fertilizers. Today, because of transportation limitations, many coal mines have to cut back on production, and this is seriously hurting enterprise profitability. Developing the small-scale fertilizer production industry can increase local sales of coal and open up a broad channel to increase the processing of coal. Therefore, developing this industry can invigorate Shanxi's chemical fertilizer industry, support the development of agricultural production, attract investments from other provinces, accelerate the transformation of coal, and expedite the establishment of energy, and heavy chemical and industrial bases. It can be a decisive move.

Shanxi's small-scale fertilizer production industry is more than 20 years old, but because of poor management, it has long remained a losing operation. Enterprises have not been able to grow, and many are deteriorating. Since the second half of 1986, with more and more peasants going into production, demand for fertilizers from the small-scale plants have begun to exceed supply. In 1987, total production of fertilizers by the small plants in Shanxi topped 2.27 million tons, yielding a profit of more than 66 million yuan. In terms of quantity, quality, and profitability, we have set a historic record. Today, there are 96 small-scale fertilizer producing enterprises in Shanxi, 80 of these are small nitrogen fertilizer producing plants, and 16 are small phosphate fertilizer plants. Together, they have the capacity to produce 670,000 tons of synthetic ammonia, 7.60 million tons of ammonium carbonate, 230,000 tons of sulphuric acid, 500,000 tons of calcium, and 80,000 tons of ammonium phosphate. These plants have become the mainstay of Shanxi's chemical fertilizer production system, and have laid the foundation for the further development of small-scale fertilizer productions.

Is the excess supply of fertilizer produced by the small-scale plants a good thing? Of course it is. It further emancipates people's mind and broadens their outlook, and it will slowly bring the products from the provincial markets to markets nationwide. Last year, Shanxi's small fertilizer plants produced 2.5 million tons of assorted fertilizers, only 1.6 million tons were needed in the province and more than a million tons were marketed in Henan, Anhui, Sichuan, and other provinces. Because demand from other provinces have been tremendous, many buyers have come to Shanxi looking in vain for supply. This year, between January and April, 910,000 tons of fertilizers were produced by the small-scale plants, 680,000 tons were sold locally and 330,000 tons were sold to other provinces. Supply is tight.

According to market research in other provinces and cities, there is an acute shortage of fertilizers produced by small plants. Each year, the supply falls short by about 86 million tons. The nation is counting on Shanxi to patch up this huge supply gap.

The other provinces have a huge demand for chemical fertilizers. They have a shortage of coal, and they lack raw materials for chemical fertilizer production, and

prices are high. In Shanxi, the retail price for each ton of fertilizer is 80 to 90 yuan lower than in Henan, Sichuan, Shaanxi, and Anhui, and Shanxi's price is very attractive to the other provinces. Therefore, it is not entirely impossible for Shanxi's small-scale fertilizer producing plants to win over, and continue to dominate, the national market with their huge volume, high quality, and low prices.

12986

### **Deregulation of Pig Prices Pays Dividends in Price Stability in Sichuan**

40060474e Chengdu SICHUAN RIBAO in Chinese  
9 Jun 88 p 1

[Article by Shen Wunong 3088 0702 6593: "Pork Prices Remain Stable Following Price Deregulation"]

[Text] Successive moves by localities around the province to deregulate pork prices have paid off remarkably in the last half year.

**1. Increased pig production.** After live pig procurement prices were deregulated throughout the province, the number of pigs on hand rose from 62,077,000 in late 1987 to 63,386,000 in the first half of this year. Province-wide, 14,273,000 pork pigs were slaughtered in the first half of this year, producing 916,500 tons of pork, up 19.2 percent and 19.5 percent, respectively, over the same period last year. From last January to 20 May, the provincial food company procured a total of 6,599,200 live pigs, an increase of 1,211,600 over the 5,387,600 pigs of the same period in 1987. We also shipped out of the province 124,706 tons of pork, an increase of 70,572 tons over the same period last year, when 54,136 tons were shipped. It is projected that 8.5 million fattened pigs will be slaughtered during these 3 quarters, 50,000 more than the 8.45 million heads slaughtered in the corresponding period a year ago. At the end of the third quarter, there will be as many as 1.5 million pigs in stock, 600,000 more than the 900,000 in stock at the same time in 1987.

**2. Increased peasants' incomes.** From January to 20 May this year, the live pig procurement price paid by the Sichuan State-Owned Food Company rose to 1.27 yuan, up from 0.86 yuan in the corresponding period last year. During the same period, the market price increased from 0.93 yuan to 1.39 yuan. According to a survey by the Sichuan food company on 235 pig-raising households in 37 counties in the province, a peasant usually made as much as 64.59 yuan by selling a fattened pig, including 39.29 yuan in fixed labor price. In the case of a key household, it can earn 61.67 yuan, including 18.81 yuan in fixed labor price. According to a survey on 160 pig-raising households in the province conducted by a cost study team from the provincial Commodity Price Bureau, the net income from raising one pig was 40.39

yuan, more than double that before prices were deregulated. Based on data provided by the Deyang Commodity Price Bureau, the profit from pig-raising amounts to 60 yuan per head. Studies by the Da County Food Company confirm that most peasants earn roughly 50 yuan when they sell a fattened pig, an increase of more than 30 percent compared to the price before live pig procurement prices were deregulated.

**3. Prices have remained largely stable.** After live pig procurement prices were deregulated, the localities have successively adjusted the selling price of pork in accordance with provincial regulations. Judging from the way the adjustment was carried out, pork prices are basically stable in most areas, except for a few isolated cases.

Zigong, for instance, deregulated pork prices on 1 April. On that day, the state-run food company was selling pork with bone at 4 yuan per kilogram and boneless hind-leg pork at 4.40 yuan per kilogram. The market price for boneless hind-leg pork was 4.80 yuan. By early June, pork prices at the state-run company had remained basically stable while the market price had dropped from 4.80 yuan to 4.40-4.60 yuan per kilogram. Or take Deyang, for instance. By early June, the negotiated selling price of pork had fallen from 4 yuan to 3.86 yuan per kilogram and Grade 1 pork from 4.40 yuan to 4.20 yuan. In Chengdu, the selling price of pork has remained what it was when prices were deregulated on 1 March.

12581

### Reasons for Growing Problem of School Dropouts in Rural Areas

40050394b Beijing GUANGMING RIBAO in Chinese  
28 Jun 88 p 2

[Article by Liu Haimin 2692 3189 3046: "Increasing Dropouts May Swell Ranks Of Illiterates"]

[Text] Elementary and secondary education in China today is being polarized. On the one hand, schools at the township level and above are engaged in a single-minded quest to increase the percentage of their students admitted to secondary schools or colleges. On the other hand, as the idea that attending school is useless spreads, dropouts have become a severe problem in large numbers of schools throughout the vast countryside. It sends out a new signal to the public and should be taken seriously by society at large.

The single-minded drive to raise secondary school and college admission rates has become a sensitive social issue, with the educational theoretical community discussing and analyzing its social danger and social origins as well as countermeasures at length. It was cited as a serious problem in education in the report to the 13th NPC. All this testifies to the fact that society as a whole has been shaken by and is concerned about the schools' preoccupation with high admission rates and has begun to tackle the problem.

But even as public attention is focused on one end of the educational spectrum—development, numerous rural schools and their counterparts in coastal opened areas and special economic zones are quietly drifting toward the other end—losing students to agriculture and commerce. A common sight in the villages is large hordes of teenagers running in the wilderness as shepherd boys. In the cities, many school-age children can be seen shining shoes and performing, adult-like, in front of assorted booths. The shadows of child laborers too are visible in some individually-owned factories. Based on a survey I did recently in a village, the dropout rates among children between 7 and 13 years old and between 14 and 16 years old were as high as 23 percent and 54 percent, respectively. What shocking figures! Statistics released recently by the State Statistical Bureau and the Changchun Statistics Bureau also show that students quitting school to join the ranks of the illiterate and semi-illiterate represent a growing serious social problem.

Students quit school mainly for the following reasons:

1. It is useless to attend school. Barely eking out a living, the parents of many schoolchildren figure that since there is no chance their kids can go on to secondary school or college, which means they have to return to the countryside to work at the end, they may as well quit school now. If you are going to do physical work, it matters little how much schooling you have had. Looking at the many uneducated self-employed young people

who have made a fortune and are materially very well-off, other parents conclude that it would be better to let their children go out and start making a living at an early age than to wait until after they fail the senior high school entrance examination, when time would have been wasted and no money earned.

2. Poor educational quality. Some local leaders, knowing nothing about education, draw up the school academic calendar as they please in defiance of educational principles. Whimsically they may declare today a spring plowing holiday, tomorrow a summer hoeing holiday, and the day after that an autumn harvesting holiday. Similar examples are legion. As a result, the schools cannot complete the state-mandated teaching plan and ensure the required amount of teaching time. An excess of holidays means that teaching is held back. The teachers have no choice but to simplify things and rush through their teaching assignments, to the great detriment of educational quality. The teachers complain loudly and the parents are equally vocal in their criticisms. Many parents conclude that since their children learn nothing in school, better to let them drop out and start earning money or stay home and help out than to let them waste time at school.

3. Too many fees and expenses. Ignoring repeated injunctions from the educational authorities, some schools collect fees and fines from students at will. Apart from the mandatory book and sundry fees, there is an endless succession of donations, activity fees, apparatus purchase fees, discipline fines, homework fines, etc. A student is fined even when he does not buy something from the teacher's second-occupation booth. This plethora of fees and charges proves too burdensome for parents.

4. Heavy psychological pressure. The tracking system, still in existence today, puts heavy pressure and psychological burden on students in slow-learning classes. This fact, coupled with their lower level of intelligence and the lack of good guidance, makes studying a painful experience for these students. They lose confidence and interest in education and quit school as a way of divesting themselves of a psychological burden.

5. China's "compulsory education law" is not legally enforced. It is a law only in name. This piece of legislation is vague and contains no concrete measures. Educational administrative authorities at all levels are neither convinced intellectually of the need to enforce it in earnest nor equipped with practical policies. In particular, it is not clear which is the responsible enforcement agency. There is no coordination between the law enforcement authorities and the department charged with its implementation. As a result, the law is not complied with and people who violate it are not investigated. Many people simply do not take its enforcement seriously.

Ten years ago, we had this common wish: The Chinese countryside is home to 800 million people. If the problems of these people are not solved, the modernization of China will remain empty talk. Then, like a miracle, the output-related system of contracted responsibility tentatively solved the problems of 800 million peasants and removed the barrier to Chinese modernization. Today another grim reality confronts us: If the problem of universal education is not resolved, it will also severely impede China's strides toward modernization. In providing 9 years of free education for every child, China is doing no more than most nations in the world do. If it cannot guarantee even 9 years of education, it cannot begin to talk about improving the caliber of an entire people. Today, students quitting school, drifting into society, and joining the ranks of the illiterate and semi-illiterate have become a widespread problem nationwide. Thus, solving the dropout problem among school-age children and ensuring that they do receive 9 years of compulsory education has become a burning issue that brooks no delay. We must fully appreciate the seriousness of the problem and its attendant consequences.

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**Education for Gifted Children Termed 'Major Research Topic'; Progress Cited**

40050394a Beijing GUANGMING RIBAO in Chinese  
5 Jul 88 p 2

[By Zhang Jianping 1728 1696 1627]

[Text] China is making progress in education for gifted children. This is the message from the first Chinese symposium on education for gifted children held recently in Hefei.

To modernize and compete internationally, we must identify the gifted at an early age and offer them training. Education for the gifted has become a major research topic for both Chinese and foreign scholars. According to the estimates of psychologists, gifted children make up

0.3 percent of the general youth population. With a youth population of more than 100 million, China has hundreds of thousands of gifted children, who constitute an invaluable source of talent. In 1978, the China University of Science and Technology pioneered the establishment of a youth program, thus filling a void in education for the gifted in China. Twelve top universities and colleges, including Beijing University and Qinghua University, subsequently followed suit. In 1985, China University of Science and Technology, Nanjing University, Beijing Jingshan School, and Suzhou Secondary School jointly offered four preparatory programs for students bound for the college youth program, thus advancing education for the gifted in the country. By creating the rudiments of a new educational system that spans the entire process from elementary through secondary school to college, they have enabled gifted children brimming with talent to blossom early. According to statistics, there are almost 1,000 gifted children enrolled in college nationwide. The China University of Science and Technology alone has 100 people from its youth program studying for a doctoral degree abroad. ZHONGBAO of New York commented, "Vigorous, honest, and diligent, young students from China are beginning to show their talent. Their grades are excellent and they are well grounded in the basics." "They are the top performers in the joint U.S.-Chinese examination for PhD candidates in physics." "In them China has a new group of vital successors." This shows that education for gifted children has been a great success.

Experts attending the symposium suggested that further tests and studies are needed on the physical, psychological, and mental attributes of college students still in their teens. In particular, close attention must be paid to the normal development of their non-intellectual aspects because a sound moral character is what determines whether a talented person's potential intelligence can be put to good use. Symposium participants also offered solutions to the urgent problems currently facing the youth program.

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## EAST REGION

### **Jiang Zemin Addresses Meeting on Political, Ideological Work**

*40050340c Shanghai WEN HUI BAO in Chinese  
5 Jun 88 p 1*

[By Huang Jiantong 7806 6943 0681]

[Text] The meeting to study and discuss party building ended in the party school of the municipal party committee this morning. Jiang Zemin [3068 3419 3046], secretary of the municipal party committee and principal of the municipal party committee party school, spoke at the meeting. He said: We need transformation and creation for ideological and political work; we also need to study how to form a new pattern for this work when factory directors (managers) assume overall responsibility for enterprises. Those comrades who have done good ideological and political work should have not only spiritual, but also material incentive. He stressed the need to marshal public opinion to enhance the prestige of ideological and political workers and to foster the sense of glory for the political work contingent.

Comrade Jiang Zemin said: We must soberly and objectively analyze the current situation. In the past several months, people have many complaints about industrial and agricultural production and the food market, and most of these complaints were about prices. We must face with courage the problems of price and wage reforms instead of avoiding them. We must brave every difficulty in accepting this challenge; once it is over, there will be a smooth, broad road ahead. The theoretical and economic workers must study the questions of industrial economic results, and of controlling the amount of currency in circulation and the scope of capital construction. Under the conditions of separation of party and government, they must also study the major question of enforcing party discipline in accordance with the basic party line. The separation of party and government has created favorable conditions for the party to consolidate itself. The way of consolidation must be based on the basic party line. We cannot overlook other work, but the work of party organizations at all levels must center on economic construction.

He continued: The party's position as the party in power makes even higher demands on party building. The party cannot give up its title as the vanguard of working class. If we want to fulfill the party's near-term task, we must never forget the long-term ideal of communism.

Comrade Jiang Zemin strongly pointed out that in developing socialist commodity economy, we must strengthen our ideological and political work and fundamentally change the former practice of divorcing economic from ideological work. Theoretical workers should illustrate this point by linking theory with practice. We must also study the true connotation of ideological work and factorize it. In centering our ideological

work on economic work, we must educate the masses in philosophy of life, in ideals and values, and in the current situation. We should also direct our ideological work to the unhealthy trends prevailing in certain periods. We must accomplish the purpose of our ideological education in linking the task of socialism in the initial stage with the education in communist ideals.

As to party work style, Comrade Jiang Zemin said that we should stress the need for economic prosperity and honest party and government organs as pointed out by Comrade Zhao Ziyang, Zhang Dinghong [1728 1353 7703], Zhao Qizheng [6392 0796 2973], Chen Zhili [7115 5267 4539], Zhou Ke [0719 0344], Yan Jiadong [0917 1367 2767], and other comrades were present at yesterday's meeting.

9411

### **Fujian Program for Political Structural Reform Drafted**

*40050340b Fuzhou FUJIAN RIBAO in Chinese  
15 Jun 88 p 1*

[Text] Yesterday morning, the provincial party committee held a symposium to investigate and study the political structural reform. The meeting reviewed the situation of the investigations and study conducted in the previous period, laid down the requirements for future tasks and for the drafting of near-term plans, and decided to proceed with the political structural reform of the province in an active and yet prudent way.

At the symposium, Jia Qinglin [6328 1987 2651], deputy secretary of the provincial party committee, announced the formal establishment of the Political Structural Reform Office of the Provincial Party Committee with Zhao Xuemin [6392 1331 2404], general secretary of the provincial party committee, concurrently acting as the director, and Yang Xiangmou [2799 4382 2021], Lei Ping [7191 1627], and Zhao Shoujian [6392 1343 4873] as deputy directors.

At the meeting, Jia Qinglin presented his preliminary views on organizing the investigations and study in the political structural reform. He said: The 13th CPC Congress decided to place this reform on the agenda of the whole party. This is an important matter. The economic structural reform has now reached a crucial stage, and the serious difficulties encountered cannot be evaded. The hot and difficult issues involved in the price reform, the wage reform, and the rent reform have been brought to light. That is why we need to accelerate the political structural reform to coordinate and keep pace with the economic reform. Practice has shown that the economic structural reform cannot be deepened without a political structural reform. In the previous period, our province did a great deal of work in the political structural reform, but what we did was not systematic and comprehensive enough. Now, the situation demands that we consider this work more comprehensively and

systematically, and adopt a more systematic and comprehensive plan. One thing we must do right now is to draft an outline of the political structural reform plan of our province for the immediate future.

In order that the drafting could be satisfactorily carried out, Jia Qinglin set nine tasks and called on the responsible departments to investigate and study them thoroughly, to work out a formal plan for their implementation, and to submit their views on them to the provincial party committee. The nine tasks are as follows: separation of party and government; strict disciplines for the party and the integrity of party and government organs; strengthening and improving the grass-root party organs; transformation and improvement of political and ideological work; structural reform and further decentralization of power; reform of the personnel system of cadres; setting up a system of social consultation and dialogue; perfecting the socialist democracy; and strengthening the

socialist legal system. Jia Qinglin requested that in the course of studying the draft, the responsible departments should devote greater efforts to theoretical research, information exchange, and the confirmation of their plans. These plans should be handed over no later than September.

The leaders and responsible comrades of the organization department and propaganda department of the provincial party committee, the Fuzhou Municipal Party Committee, the provincial party school, the provincial personnel bureau, the provincial economic commission, and the party committees of departments directly under the provincial party committee also recounted their experiences in organizing their investigations and study in the political structural reform in the previous period.

9411

**Affirming Opinion Poll on Li Teng-hui's Performance**

40050346a Taipei TZULI WANPAO in Chinese  
16 Jun 88 p 2

[Text] According to a poll conducted by the Research Institute of Tanchiang University completed several days ago, President Li Teng-hui's prestige is being universally affirmed. The President's "image," the "confidence" in him, and the "President's duty performance" were supported by practically all the people, and the views of people of all strata are nearly identical.

This poll was conducted by Chang Hung-chu [1278 4785 3515], president of Research Institute of Tanchiang University. A sampling survey was conducted on people of different social strata from 21 to 25 May through phone calls to 1,388 households. The survey consists of three parts concerning the president's "image," the "confidence" in him, and the "president's duty performance" respectively. Its purpose is to assess the prestige of President Li Teng-hui during the first 4 months of his presidency. The complete result of the survey will be published in the current issue of MIN-I YUEH-KAN [POLL MONTHLY].

The result reveals that in the part concerning President Li's image, 43.3 percent was "very good"; 51.4 percent, "not bad"; only 0.8 percent, "poor or not too good"; and 4.5 percent, "no comment."

In the part concerning confidence in Li Teng-hui as the president, 30.3 percent showed "great confidence"; 60.4 percent, "confidence"; 1.2 percent, "not much confidence"; 0.1 percent, "no confidence"; and 8 percent, "no comment."

In the part concerning President Li's duty performance, 31.3 percent showed "very good"; 55.3, "good or not bad"; 1.9 percent; "poor or not too good"; 0.1 percent, "very poor"; and 11.4 percent, "no comment."

The survey further revealed that the people of Minnan and Hakka origins, the natives and the people of mainland origin all had a good opinion of President Li.

According to the survey, there was not much difference between sexes, education levels, and vocations in the evaluation. The positive evaluations were between 85 percent and 98 percent.

9411

**Taiwan Presbyterian Church Expresses Concern, Calls for Fair Trial of 'May 20' Case**

40050346b Taipei TZULI WANPAO in Chinese  
2 Jun 88 p 2

[Text] The Presbyterian Church of Taiwan held a press conference this morning and issued an announcement expressing its grief and serious concern over the May 20 Incident.

The announcement called on the judicial authorities to handle this case with fairness so that the innocent ones could be immediately released, and the offenders including the people, the military police, and the police will be duly punished. This will be a good way to eliminate antagonism between the government and the people and to promote Taiwan's social harmony.

The announcement also expressed grief and concern over the most violent bloodshed of the past 40 years as a result of the conflict between the people and the military and police authorities; over the beating and indiscriminate arrests of people by the police and the military police in dispersing the crowd; and over the subsequent punishment and extortion of confessions.

The Presbyterian Church opposed the reimposition of curfew in any form. The announcement pointed out: The reimposition of curfew is like taking morphine which will destroy the state's vitality and ruin the national destiny. The church also appealed to the authorities for a thorough reexamination of the agricultural policy and for some specify plans to advance the peasants' rights and interests.

9411

**Professors' Perception of May 20 Incident**

40050346c Taipei TSULI WANPAO in Chinese  
16 Jun 88 p 2

[Text] Today, more than 100 professors from the Central Research Academy and various Universities and Colleges in the country issued a joint announcement entitled "Our Appeal Regarding the 'May 20' Incident." The announcement strongly pointed out that the Agricultural Administration and the highest department must be responsible for the May 20 Incident, and appealed to the judicial and procuratorial departments to deal with the incident with fairness and to punish the law-breakers according to law, instead of trumping up charges or conducting any political inquisition.

This announcement was initiated by Hsu Cheng-kuang [1776 2973 0342] and Hsu Mu-kui [6079 2606 2710] of the Central Research Academy, and signed by Wen Chung-i [2429 1504 0001], Hsiao Hsin-huang [5618 2450 3552], Wu Nai-te [0702 0035 1795], Chang Yen-hsien [1728 3508 2009], Tu Cheng-sheng [2629 2973 0524], Hsu Song-ken [6079 2646 2704], Shih Shun-i [2457 7311 1942], Chang Chung-tung [1728 1813 2767], Huang Wu-hsiung [7806 2976 7160], Li Hung-fu [2621 7703 4395], Liu Fu-tseng [0491 4395 1073], Hsiao Kun-sha [5618 1507 2619], Lin Yu-ti [2651 3768 7555], Fu Ta-wei [0265 1129 3634], Huang Ti-yuen [7806 2251 3293], Lu Cheng-hui [0712 2973 1920], and others totaling about 120. Their announcement strongly pointed out: "We will closely watch the subsequent developments of the May 20 Incident. If social justice

cannot be safeguarded and judicial fairness cannot prevail, we will continue to take various forms of supportive action with all the influence at our disposal." The text of announcement reads as follows:

It was like a nightmare. The blood and tears shed during the May 20 Incident deeply pained us.

We believe that the peasants, students, the people, and the police are all our compatriots. The land on which their blood and tears flowed is the land on which we all live and which we possess. However, we have discovered that this land is suffering from a serious disease, while the peoples' rights and interests and the state's democracy and rule by law are wavering at a dangerous cross-road. Now that the May 20 Incident is about to be tried in the law court, we, as a group of academic research workers, are pained to see people's appeals being distorted and ignored. We know that social justice and righteousness have been ignored. Because of our academic intuition and our quest for truth, we cannot help but step forward to air our views and to appeal solemnly to the government departments concerned on the following points:

1. The Agricultural Administration and the highest administrative department must bear the responsibility for the May 20 Incident and conscientiously reexamine the present agricultural policy. The so-called "viewing problems from the standpoint of overall interests," "the government doing everything it could for the peasants" and similar phrases are being used simply as an excuse for the shirking of responsibility.

2. The judicial and procuratorial departments must handle the May 20 Incident with fairness. We are in favor of punishing the law-breakers (including the people, the police and the military police) according to law, but not trumping up charges or holding political inquiries. We also appeal for the release of the innocent peasants and people who have been arrested.

3. The administrative departments must consider the administrative responsibility and deal with the persons connected with the May 20 Incident, particularly those who failed in their duty of persuasion and those are in charge of the police and military police forces and condone police brutality.

4. The legislative departments must immediately reexamine the present system under which the procuratorial departments are restricted by the administrative departments.

5. In future demonstrations and parades, the executors of public authority must act strictly in accordance with the spirit of democracy and rule by law. The police are a tool for the maintenance of social order, and can never treat the people as enemies and subject them to illegal

brutality. We also resolutely opposed military intervention in social movements in order to avoid further civilian grievances and conflicts.

Our common concern is with the way for our society to head for a bright future, and our common belief is that since the state and the society belong to all the people, any negative forces that may affect the normal development of our society must be guarded against or corrected. Therefore, we are closely watching the subsequent developments of this incident. If social justice cannot be safeguarded and judicial fairness cannot prevail, we will continue to take various forms of supportive action with all the influence at our disposal in the hope that people's rights and interests can be realized, and that democracy and rule by law can prevail forever.

9411

**Over 1,000 Army Deserters at Large**  
*40050346d Taipei TSULI WANPAO in Chinese*  
23 Jun 88 p 1

[Text] According to statistics from military sources, the number of deserters has exceeded 1,300, and more than two-thirds of them are in compulsory military service. Most of these deserters, now wanted by the military police, were not connected with the underground world in the past. After their desertion, however, the main way for them to earn their living and to hide themselves is to work in gambling joints. The military units are conducting exercises named "Si-an" of mopping-up operations against both the gambling joints and the deserters.

As we understand, the "Si-an" exercise is under the charge of a military police unit, while the job of the police is to assist in arresting deserters. The military authorities once obtained a report with certain information on deserters. The report supplied the locations of the deserters' rendezvous and the gambling joints, and described how the deserters formed their contacts with the underground world, mainly through middlemen, and how they gathered together to set up gambling joints or to act as bodyguards for these joints, so that they could have their hiding place and earn their living expenses.

Investigations by the military unit reveals that the deserters at large may not be armed. However, some of them did steal munitions before running away. Prevention of the loss of munitions and tracking down the lost munitions are also the main concern of the "Si-an" exercise.

The police authorities pointed out: Cooperation with the military's "Si-an" exercise comes mainly from the criminal section personnel of police substations. Since money is what the deserters need most, the crime rate is now very high because of deserters. They are a serious threat to public security.

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